Answering the topical strategic questions

Go-Ahead's Chairman, Group Chief Executive and Group Chief Financial Officer answer the topical questions that we get asked by our stakeholders on strategic matters.

Q What are the factors driving the challenging conditions in the bus market, and how are you adapting your business to meet those challenges?

There are both cyclical and structural factors at play. Economic uncertainty in the UK is causing reduced volume growth. This should improve as uncertainty clears. Structurally, there are also changes in travel patterns with more people working from home, increased levels of internet shopping and more home based leisure activity. We are confident that buses have an important role to play in mobility especially where there is population growth and buses are part of the solution to the issues of congestion and air quality. In this environment, we are maintaining our focus on customer service, using technology and innovation to make bus travel more attractive and easier to use. Our focus on cost and efficiency also continues. Recognising the long term nature of these trends, we are developing for the future of transport with a number of initiatives being trialled to provide attractive customer propositions in a changing world, which have the potential to grow in the future.

Q What is your view of the franchising model being extended to bus markets outside London, and how could that impact your business?

We believe that working in partnership with local authorities is key to giving communities a reliable and successful bus service and growing passenger numbers. The Bus Services Act offers certain local authorities the opportunity to franchise and we are waiting to see what happens in Manchester. The current cuts to London's services show that franchised services are not immune from reducing passenger numbers as a consequence of congestion and the wider socio-economic trends. Franchising alone will not reduce congestion, improve air quality or create local economic growth. Our operators already have multi-operator tickets, joint bus and rail tickets, simple fares, real time information, apps, contactless payment, WiFi and next stop announcements. Further benefits can all be delivered through partnership thinking.

Patrick Butcher
Group Chief Financial Officer

David Brown
Group Chief Executive

Andrew Allner
Chairman

Q What are the impacts on your business from the continuing uncertainties around the shape of the UK's departure from the EU?

We are not seeing significant direct impacts from the Brexit uncertainties. There is no restriction on non-EU groups bidding for bus and rail contracts in the markets which we are targeting in our international strategy, and we do not believe that this will change. For our UK businesses, uncertainty around Brexit has held back UK growth recently and dampened demand for our services. This could improve as more clarity emerges. The most direct impact on our UK business potentially relates to changes in the labour market as we have a diverse workforce, particularly in London. Our forward planning has helped us to have a good flow of hiring and training apprenticeships which means that we will be able to meet our staffing requirements both in terms of numbers and skills.

Q How will you sustain an attractive dividend if you lose the Southeastern rail franchise after already having lost the London Midland franchise?

We understand the importance of the dividend to shareholders. The stable performance of our bus business is the foundation of our dividend and the Board regularly reviews our dividend policy to ensure that it remains appropriate and attractive. Our new dividend policy of a payout ratio between 50% and 75% of earnings provides additional flexibility to safeguard an attractive dividend under different circumstances, and provides shareholders with greater clarity on the possible range of dividend payments each year. We believe we have submitted a sensible bid for South Eastern which is both operationally deliverable and economically rational. Together with the strong management, engaged teams, improved customer satisfaction and reliability we have delivered over the past few years on the service, we believe we have a good chance of winning the new franchise. We have also been developing our international activities with a view to either replace the earnings of the South Eastern franchise over the medium term or providing additional earnings growth, depending on the bid outcome.

Q Why don't you accelerate progress in your international strategy through acquisition?

We have a clear and disciplined approach to international expansion. This involves playing to our strengths in markets which have stable political and legal systems, and working with transport authorities which are open to the expertise we can deliver. We also look for low capital requirements as well as a visible pipeline of work in our target markets. To date, this has led us to prefer entry into a new market through contracts with local authorities, rather than acquisitions which require higher capital outlay. Once we have built an established market presence, and deeper local market knowledge, then acquisitions may become a bigger consideration.

Q How do you counter the arguments for rail renationalisation in the UK?

We have worked in rail with different governments and will continue to do so. Much of the rail industry, in terms of the infrastructure, is already government controlled. We believe in the benefits of private sector delivery of public services through the customer focus and access to private investment this can bring. The number of rail journeys has more than doubled since privatisation and much of the investment in rail over the next few years will be private money in new rolling stock. We have one of the safest railways in the world and customer satisfaction across the UK network is the highest for a major railway in Europe. For taxpayers too, there have been benefits, with train operating companies paying more to government in premium payments than they receive in subsidies for the seventh year in a row during 2016/17.

Q How would you explain the issues which arose from the timetable change at GTR, and what are the potential implications and lessons learned?

This was a collective failure of the industry in implementing the biggest timetable change in a generation, and we are very sorry for the unacceptable level of disruption that it caused to some of our passengers. As a result of the sheer number of changes required, the process took longer than anticipated, approvals for service changes were delayed and some timetable requests were changed. This meant that operators had much less time to prepare for the new timetable. As an industry we need to learn lessons and we welcome the review being undertaken by the Office of Rail and Road which we hope will improve industry processes for the future. We are focused on running a stable and reliable service, and since July reliability and punctuality have significantly improved.

Q What is your view of the current rail franchising model and how should it be amended going forward?

We support closer working with Network Rail and we agree with the Secretary of State that one size does not fit all for rail franchises. We would welcome smaller and simpler franchises, with a steady pipeline of opportunities to maintain market interest, reducing the cost of bidding and lowering the level of capital required for each contract. We would also like to see a process which is more focused on outcomes for passengers than prescriptive inputs currently required in bid submissions. This would give operators the flexibility to use their skills and innovation to deliver the services that customers, communities and the economy require.

Q With private equity interest in the sector recently, what is your view on whether this could extend to Go-Ahead and on prospects for restructuring or consolidation in the sector?

We have an attractive business, and we believe that we are well placed for the future as an independent company. If interest were shown in us, we would naturally fulfil our fiduciary duty and give it the appropriate level of consideration. We have not seen evidence of significant consolidation taking part in the sector and in fact there are now more rail operators than five years ago. As local opportunities present themselves, we are able to pursue bolt-on acquisitions, as we have done this year, and in some cases, where other bus operators have withdrawn from services, we have been able to step in and secure services for customers at acceptable margins. As a potential acquirer, we carefully evaluate all opportunities that arise and maintain our financial discipline as we put together bids.

Q How robust and diversified is your business model in the event that you don't win the new South Eastern franchise or many more international contracts?

We have submitted a strong bid for the new South Eastern franchise and we are optimistic about our prospects for international contracts. Nevertheless, our strategic thinking and planning processes consider a range of possible scenarios in which we would manage the business accordingly to maintain a robust financial structure and an attractive dividend. As this year has demonstrated, we have a resilient bus business which provides a robust underpin to our financial performance.

Q How do you allocate capital across your different businesses to ensure that you achieve attractive returns?

Our overall capital principles are to manage the balance sheet consistent with the maintenance of an investment grade rating, with a target net debt (excluding restricted rail cash) to EBITDA of 1.5 times to 2.5 times whilst paying an attractive dividend. Our capital allocation prioritises sustaining profits from existing businesses, to meet commitments in franchises or other contracts, and to build a sustainable business for the future. In deciding between businesses, we carefully consider the potential returns that could be generated and the potential risks associated with those returns.

Q To what extent are you seeing wage cost pressures building in your businesses as UK unemployment remains low and the rate of inflation has risen?

We are fully committed to being a good employer. This means paying our people fairly and sustainably for the contribution they make. It also means providing a good working environment and opportunities to develop, so that our colleagues can fulfil their potential. In our London business, a contract pricing indexation mechanism adjusts for general wage inflation. In regional bus, we have managed wage inflation and protected our margins and our rail contracts have built-in assumptions on wage inflation that we have been broadly consistent with.

"We continue to focus on making bus travel easier and more attractive for our customers, using technology and innovation to complement our reliable, friendly services."

David Brown,
Group Chief Executive

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