

# Thameslink, Southern and Great Northern (TSGN) franchise award

Analyst and investor conference call

23 May 2014



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# David Brown

Group Chief Executive

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# Introduction

- Instrumental role in the Government's £6bn Thameslink Programme
- Busiest UK rail franchise – increasing passenger capacity by 50%
- Introducing three new train fleets and station improvements
- Bid focused on improving customers' experience
- Proven track record of working in partnership and delivering on major projects



# TSGN The UK's busiest rail franchise

## Serving important regional centres

- To the north: Bedford, Cambridge, Luton, Milton Keynes and Peterborough
- To the south: Brighton, Portsmouth and Southampton

## Connecting to major London stations

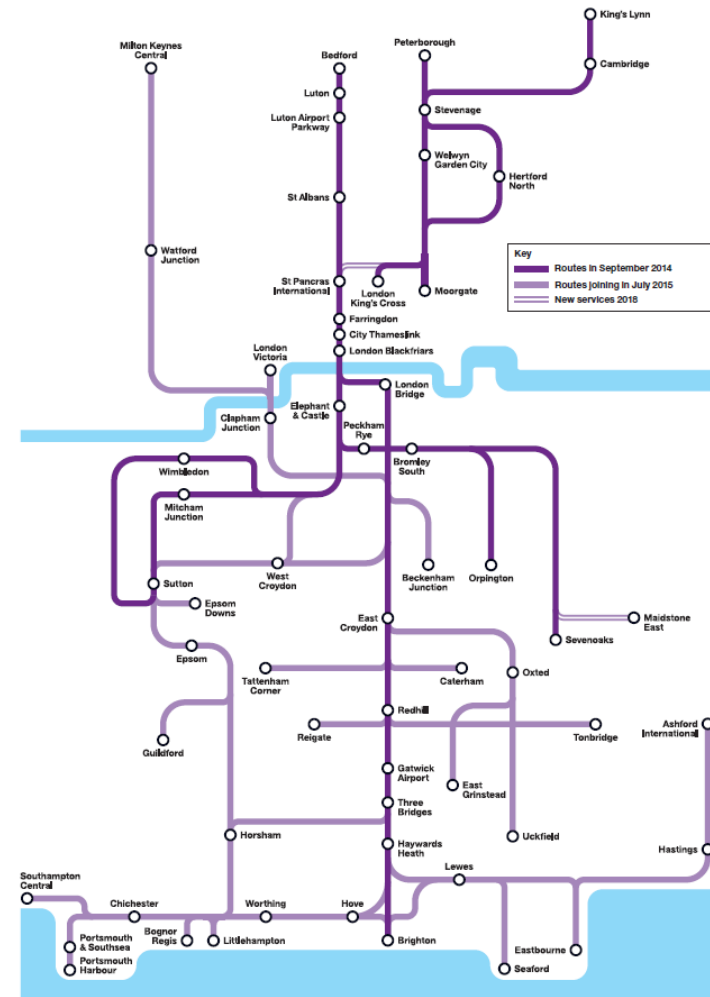
- Kings Cross, London Bridge, St Pancras International and Victoria
- Farringdon: links for Crossrail and Heathrow

## Improved connections to international travel

- Direct rail links to Gatwick and Luton airports and Eurostar services

## Major infrastructure enhancements:

- Thameslink core: St Pancras to London Blackfriars
- Rebuilding London Bridge station



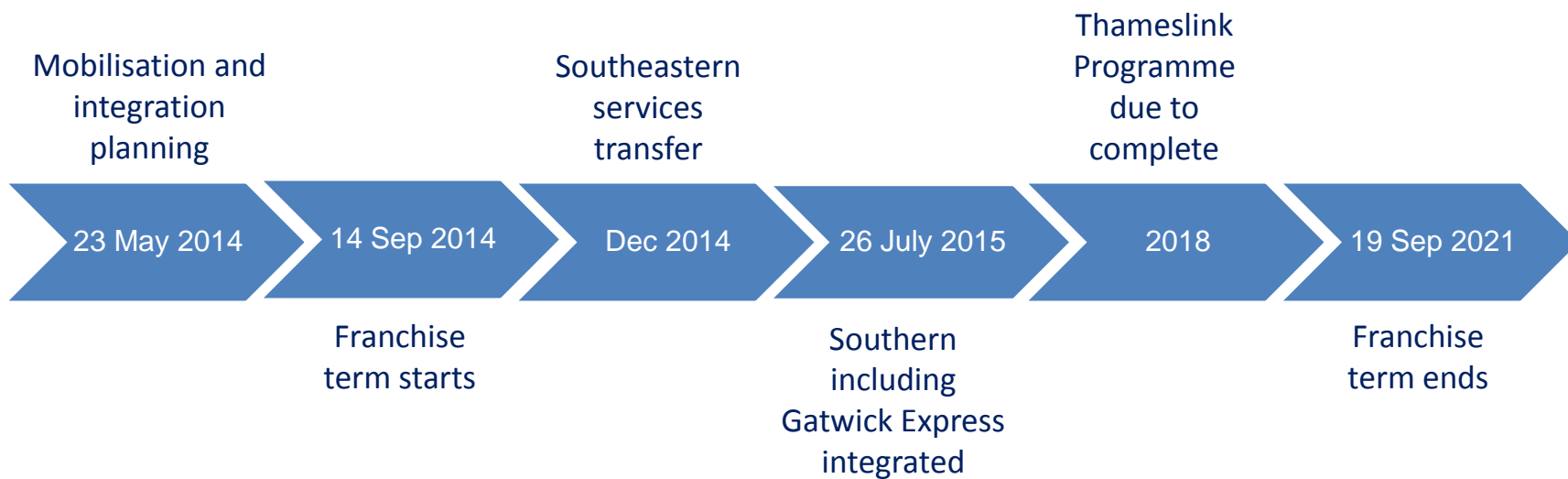


## Franchise structure Supporting the £6bn Thameslink Programme

- The Thameslink Programme is a major infrastructure and investment programme
- It will transform north-south travel through London, increasing train capacity and also helping relieve congestion on London Underground
- The Programme includes extensive track work, lengthening platforms, rebuilding London Bridge Station and upgrading other stations
- Due to the complexity and scale of the Thameslink Programme, the TSGN franchise has been let as a management contract where ticket revenues are passed to the Government rather than retained by the franchisee
- Govia will work with the DfT to generate passenger revenue of an estimated £12.4bn for the benefit of the taxpayer. We will receive franchise payments to reflect operating costs and a small margin allowance.
- Our focus will be on operational performance, customer improvements and supporting the delivery of the Programme



# Franchise timeline





## Working in partnership

- **Govia is an experienced and responsible UK rail operator**
- **In collaboration with the DfT, manufacturers and Network Rail, we have introduced more trains than any other operator**
- **Govia's Southern and Southeastern franchises are already partners in the Programme**

Expert support from Keolis and SNCF from comparable projects (e.g. Automatic Train Operation, RER Metro system in Paris)

A history of expertise in managing and delivering large and complex UK rail industry 'change' projects:

- Major timetable changes at Southern, Southeastern and London Midland increasing capacity and speeding up journey times
- The UK's first domestic high speed services on HS1 introduced six months early
- Operators of the Javelin service; the 'jewel in the crown' of the London 2012 Olympic and Paralympic Games transport plan



## Improving customer experience Introducing three new train fleets

- **New Class 700 fleet for Thameslink services**
  - 1,140 carriages from Siemens, procured through the Thameslink Programme
  - £1.6bn financing package in place for manufacture and maintenance
  - Delivered between 2016 and 2018
- **New Gatwick Express fleet**
  - 108 new Gatwick Express carriages (27 four-car units)
  - Capital cost c.£162m
  - Delivered by 2016
- **New trains for Moorgate services**
  - 150 new metro carriages for Moorgate service (25 six-car units)
  - Capital cost c.£225m
  - Delivered in 2018
- **We are industry leaders at new train introduction and have introduced more trains than any other operator, in collaboration with the DfT, manufacturers and Network Rail**





## Improving customer experience

### Timetable and service improvements

- **Passenger demand forecast to increase** – increased capacity created by the Thameslink Programme with 10,000 additional morning peak seats into London, new trains, more services and improved timetables
- **Customers will see improved punctuality and shorter journey times. Highlights include:**
  - More services to and from Gatwick Airport including a new direct Cambridge to Brighton service
  - Improved Brighton Main Line services from December 2015
  - Full use of new rolling stock with up to 24 trains per hour during the peak through the Thameslink core (St Pancras to Blackfriars)
- **We have a proven record of working with industry partners to successfully integrate franchises**
  - Gatwick Express integrated with the Southern franchise
  - London Midland created from Silverlink and Central Trains integration
  - The Integrated Kent Franchise; Southeastern high speed services introduced on HS1

# Keith Down

Group Finance Director

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# Franchise payments

- Govia will work with the DfT to generate passenger revenue of an estimated £12.4bn over the life of the franchise for the benefit of the taxpayer. Franchise payments from the DfT to Govia will amount to an estimated £8.9bn, with an anticipated NPV of £6.8bn\*
- Franchise payments are calculated as the amount forecast at the time of the bid to:
  - Reflect the franchisee's operating costs
  - Generate the franchisee's margin on net cost (gross cost less ancillary revenues)
- Franchise payments are contracted at 30 September 2014 prices and are largely indexed at RPI

\*based on DfT discount rate of 3.5% in real terms



## Franchisee financial risk

- DfT retains passenger revenue risk (full upside and downside)
- Performance regimes
  - Thameslink Programme incentive provides £nil to £25m income for achieving milestones, mostly payable mid-term
  - There are incentives or penalties for a range of service quality targets (punctuality, passenger experience, revenue protection etc) over the life of the franchise
- Govia bears cost and ancillary revenue risk (except some infrastructure/rolling stock charges)
- Key cost risks include integration, staff, rolling stock, electricity costs and cost of sales



# Franchisee financial returns

- Estimated NPV of franchise payments to Govia: £6.8bn\*
  - Govia ownership: 65% Go-Ahead, 35% Keolis
  - Year 1: Franchise payments: c.£350m (September 2014 to 30 June 2015)
  - Year 2: Franchise payments: c.£1.1bn (Year to 2 July 2016, Southern integrated on 26 July 2015)
- Target average operating profit margin of c.3% over the franchise term after estimated annual non-cash margin impact of c.1% for IAS 19 (revised) pension costs
- Operating cash flow after capital expenditure broadly neutral in Year 1 and thereafter cash flow generated should largely reflect operating profit
- Expected working capital inflow of c.£45m relating to season ticket monies, treated as restricted cash

\*based on DfT discount rate of 3.5% in real terms



# Franchise capital structure and commitments

- Subscription for £5m of share capital
- Two subordinated contingent loan facilities totalling £136.4m to support working capital and capital investment
  - £63.9m: unbonded
  - £72.5m: 50% bonded
  - Given the expected cash flow profile of the franchise it is not anticipated that these facilities will be materially drawn over the franchise life
- Season ticket bond
  - 100% cash backed, dependent on season ticket income
  - Expected to increase from c.£45m to c.£95m on the integration of Southern
- Performance bond: £20m
- Govia will be directly funding c.£40m of investment on franchise initiatives over the franchise term. Most of which will be in the first two years



## Financial summary

- Bid assessed on a weighted price and quality score
- Considerable industry expertise, analysis and challenge
  - Bottom-up analysis of the two existing franchises
  - Prudent economic and cost assumptions
  - Quantified revenue growth and cost saving initiatives
  - Independent operating performance estimates
- Good returns to Govia
- Manageable risks
- Appropriate level of parent company support

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## Next steps

- ‘Standstill period’ of ten days before the award is formally confirmed and DfT sign the contract
- Preparation has already started
- Our experienced team is working on practical mobilisation and integration plans
- Over the coming weeks and months we’ll be meeting local stakeholders to give more detailed briefings about customer benefits in their areas
- **Looking forward to putting in place the plans set out in our bid to deliver improvements for passengers and returns for taxpayers and shareholders**

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