MOODY'S INVESTORS SERVICE

CREDIT OPINION
1 February 2021

Update

Rate this Research

RATINGS

Go-Ahead Group plc (The)

Domicile	United Kingdom
Long Term Rating	Baa3
Type	Senior Unsecured - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Go-Ahead Group plc (The)

Update following new methodology

Summary

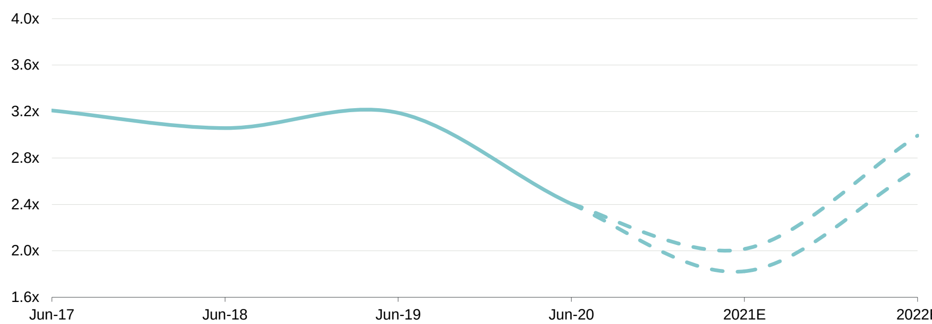
Go-Ahead Group Plc's (Go-Ahead) rating at Baa3 and stable outlook reflect our expectations of pressure on Go-Ahead's revenues, EBITDA and operating profit as a result of the reduced travel in the wake of the coronavirus and continued lockdowns, as well as the related overall slowdown in the economic activity. Go-Ahead's credit profile reflects (i) high proportion of contracted revenues across its businesses, (ii) a range of material support from the Government and local authorities for the critical service Go-Ahead provides, (iii) its strong market position in the London bus segment, where Go-Ahead has demonstrated strong commercial and operational performance, (iv) its sizeable UK regional bus business, which has exhibited resilience to challenging market conditions, (v) its measured approach to international expansion, and (vi) our expectation that the company will continue to exhibit a good liquidity profile and prudent financial policy.

However, credit constraints include (i) sharp demand contraction across a number of markets as a result of coronavirus and related quarantines, (ii) Go-Ahead's material presence in the UK rail segment, which exhibits relatively volatile profitability, and where its operational performance on the rail franchises has been challenged in the past, (iii) the trend of decreasing passenger volumes characterising UK regional bus operations, and (iv) uncertainty with respect to the timing of sustainable recovery.

Exhibit 1

Moody's-adjusted leverage to increase over the next 12-18 months if the rail franchises are not extended

Moody's-adjusted leverage evolution and expected leverage range



This represents Moody's forward view, not the view of the issuer. Based on 'Adjusted' financial data. Fiscal year ending in June. Assume that the rail franchises are not extended upon expiration unless announced otherwise. The dashed line shows the lower/upper range of our projections.
Source: Moody's Financial Metrics™, Moody's Investors Service estimates

Credit Strengths

- » Majority of revenues (90%) independent of passenger volumes due to contract structure or external support
- » Meaningful government support for the majority of Go-Ahead's businesses
- » Market leader in London bus, with strong historical commercial and operational performance
- » Renewal of the Southeastern rail franchise during 2020 on a management contract basis eliminating revenue risk
- » A measured approach to international expansion

Credit Challenges

- » Sharp demand contraction across a number of markets as a result of coronavirus and related quarantines
- » Lower contractual margins in Southeastern franchise and significant operational and commercial challenges in German rail
- » Uncertainty regarding rail franchise renewals upon expiration in autumn 2021
- » Declining passenger numbers in regional bus due to changing demographic and market trends

Rating Outlook

The stable rating outlook reflects our expectations of pressure on Go-Ahead's EBITDA and operating profit as a result of the reduced travel in the wake of the coronavirus, as well as the related overall slowdown in the economic activity.

Factors that Could Lead to an Upgrade

Although not expected in the near term, positive rating pressure would be precipitated once there is greater clarity with respect to a recovery in passenger travel demand. More quantitatively, retained cash flow (RCF) to net debt ratio above the low-twenties in percentage terms would be needed for an upgrade.

Factors that Could Lead to a Downgrade

We could downgrade the ratings if the company fails to evidence recovery in demand or if its liquidity profile is weakened. In quantitative terms, negative rating pressure could arise if the RCF to net debt ratio were to deteriorate to below the mid-teens in percentage terms.

Key Indicators

Go-Ahead Group plc [1]

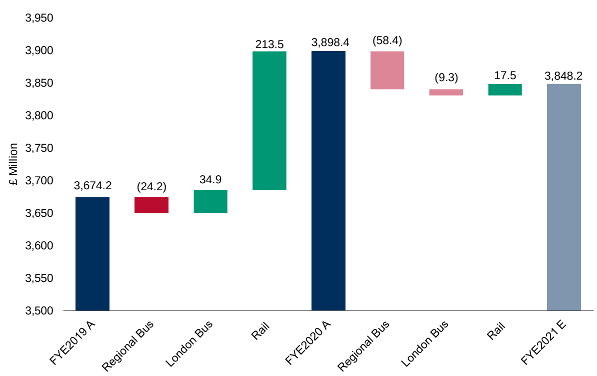
in GBP million	Jun-16	Jun-17	Jun-18	Jun-19	Jun-20	12-18 month forward view
Revenue	3,361	3,481	3,462	3,674	3,898	1,810-2,005
EBIT Margin %	5.0%	4.5%	3.9%	3.5%	2.2%	5.5%-6.0%
RCF / Net Debt	21.5%	18.5%	20.4%	25.6%	39.1%	31%-34%
Debt / EBITDA	2.9x	3.2x	3.1x	3.2x	2.4x	2.7x-3.0x
(FFO + Interest Expense) / Interest Expense	11.3x	11.5x	10.5x	16.2x	22.1x	19.5x-21.5x

[1] All ratios based on 'Adjusted' financial data and incorporate Moody's global Standard Adjustments for Non-Financial Corporations; future metrics represent Moody's forward view, not the view of the issuer.
Source: Moody's Financial Metrics™, Moody's Investors Service estimates

Corporate Profile

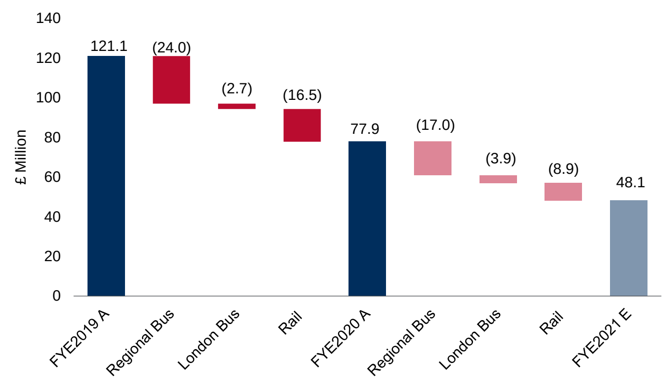
Go-Ahead is a UK-based and FTSE 250 listed bus and rail operator. It is largely focused on the domestic market and has three core segments: London bus, UK regional bus and UK rail. In the regulated London bus market, Go-Ahead is the largest operator, while in the predominantly deregulated regional bus market, Go-Ahead is the fourth largest UK national bus operator. Go-Ahead's rail interests, which currently comprise two franchises (Southeastern and GTR), are held through its 65% owned subsidiary, Govia, while the other 35% is owned by Keolis (a subsidiary of the French railway operator SNCF), making it the market leader in UK rail. Go-Ahead's rail services connect London with towns and cities across the south-east and east of England. Outside of the UK, Go-Ahead has bus and rail operations in Germany (its first German rail contract started operations in June 2019), Singapore (operating 25 bus routes since September 2016), Ireland (2 bus contracts with a total of 30 routes), and Norway (Go-Ahead launched the country's first privately operated train service in December 2019). These operations are currently relatively small contributors to the group's operating profit. For its fiscal year ending June 2020, Go-Ahead reported revenues of £3.9 billion and an EBITDA of £548 million on an IFRS 16 basis.

Exhibit 3
Group revenue evolution by business segment



Projected numbers represent Moody's forward view, not the view of the issuer. Based on 'as Reported' financial data.
Source: Company, Moody's Investors Service

Exhibit 4
Group operating profit evolution by business segment



Projected numbers represent Moody's forward view, not the view of the issuer. Based on 'as Reported' financial data. Excludes £7.3 m potential upside from CBSSG reconciliation process and potential QIC upside in the London bus business which the company expects to increase over prior year.
Source: Company, Moody's Investors Service

Detailed Rating Considerations

Go-Ahead's credit profile weakened as a result of the coronavirus outbreak but we expect the company to restore its credit metrics going forward

During the coronavirus pandemic, Go-Ahead benefitted from strong contractual support in its London bus and rail businesses such that 90% of the group revenues were protected from changes in passenger demand. The company also received government support with respect to its regional bus business as part of Department for Transport's effort to bolster key public transportation services.

In the wake of coronavirus, Go-Ahead took actions to conserve cash and reduce costs, including suspension of the interim dividend, as well as utilisation of government job retention scheme. Capital expenditures were cut significantly and are expected to amount to £65 million in FY2021 compared to approximately £100 million in FY2020. The company also noted that it intended to resume dividend payments when appropriate.

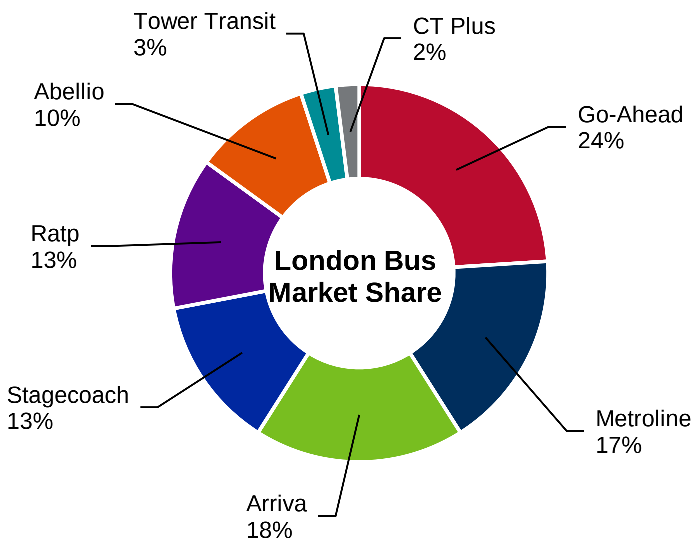
In its most recent trading update in December, Go-Ahead indicated that the regional bus business continues to be funded by government and recovered to 50% -- 60% of pre-crisis volumes before the latest UK lockdown at the end of 2020. The London and International bus business was trading well with expectations for the full year now ahead of previous guidance, mainly as a result of a one-off benefit due to the timing of recognition of Quality Incentive Contract income and the German rail business improved after significant losses in Germany due to operational and commercial challenges in the second half of FY2020.

Go-Ahead reported a negative performance in their regional bus business in FY2020 ending June with regional bus (26% of total operating profit in FY2020) posting a 5.3% decline in its operating profit margin to 5% in FY2020 compared to 10.3% in FY2019 as a result of coronavirus. London and international bus (62% of total operating profit in FY2020) showed an increase of 3% in revenues on a like for like basis in FY2020 compared to FY2019, while operating profit margin remained relatively stable at 8% in FY2020, down by 1% from 9% in FY2019, owing to the contractual nature of this business. Rail (11% of total operating profit in FY2020) operating profit margins decreased to 0.3% in FY2020 from 1% in FY2019. The reduction in rail profit in Southeastern resulted from lower contractual margins. Positively, London and international bus segment also performed well in Singapore and Ireland owing to the underlying contract structures.

Go-Ahead, the market leader, has performed strongly in London Bus, both operationally and commercially

Go-Ahead is the largest operator in the London bus market, with a 24% market share. The group owns 16 depots, strategically located across London, enabling it to bid for bus routes competitively.

Exhibit 5
Go-Ahead is the largest London bus operator



Source: Company, Moody's Investors Service

In FY20, London and International bus operations accounted for 15.5% of consolidated revenues (FY19: £569m; FY18: £551m) and 62% of consolidated operating profit (FY19: £51m; FY18: £46m).

In the wake of coronavirus, TfL agreed to pay revenue as contracted to support operators' costs such that any savings from reduced service are returned to TfL. Therefore, we expect Go-Ahead's revenues from this business not to be very significantly affected; however, operating profit margin declined slightly to 8% in FY2020 compared to 9% in FY2019. Go-Ahead reached similar agreements with the contracting parties in Singapore and Dublin.

The London bus business operates bus services under contracts with Transport for London (TfL), whereby TfL bears revenue and volume risk. Go-Ahead receives a fixed fee (subject to adjustment for certain inflation indices) and takes cost and capital risk. Bus operators tender to win contracts and each contract is typically for a five-year period, with the potential for it to be extended by two years if performance targets are met. Go-Ahead currently operates just under 160 routes on behalf of TfL. The large number of individual contracts limits the financial impact of a contract expiry.

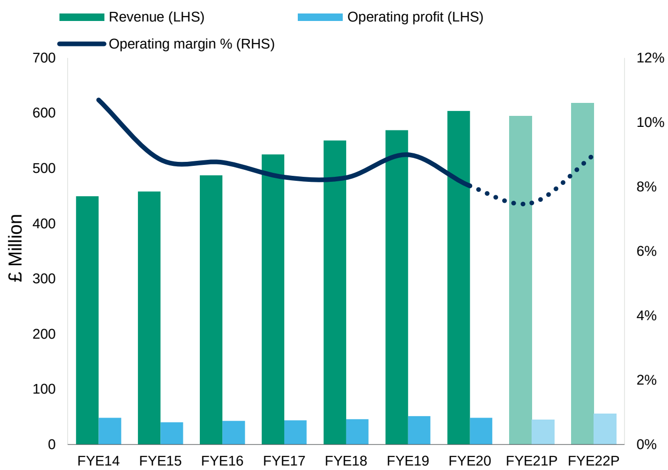
Contract terms vary depending on how competitive the contract tendering is. Given the lack of exposure to variation in passenger volumes, London bus activities generally exhibit stable revenues and relatively lower margins compared with regional bus activities. Nonetheless, Go-Ahead's operating margins on London bus are solid compared to both its regional bus business and to rated peers. Management focus is on cost control, contract bidding discipline and retention rates, which are critical to profitability, particularly when inflation is low.

In addition to the fixed fees payable by TfL, London bus operators are also rewarded with additional payments when specific quality indicators are met. Go-Ahead reported that Quality Incentives (QICs) performance is down £4 million in FY2020 largely due to service reduction during lockdown and the timing of settlements with TfL; however, the company received a QIC payment in fiscal 2021. The company also stated that Singapore and Ireland are trading well and that the majority of expected revenue for 2021 has been already secured.

In the regulated London bus business, Go-Ahead's key risk is a failure to renew contracts on profitable terms. However, the company has historically had a solid retention rate, despite strong competition. London operations are the most stable revenue contributor to Go-Ahead's consolidated revenues, exhibiting a moderate but stable growth every year.

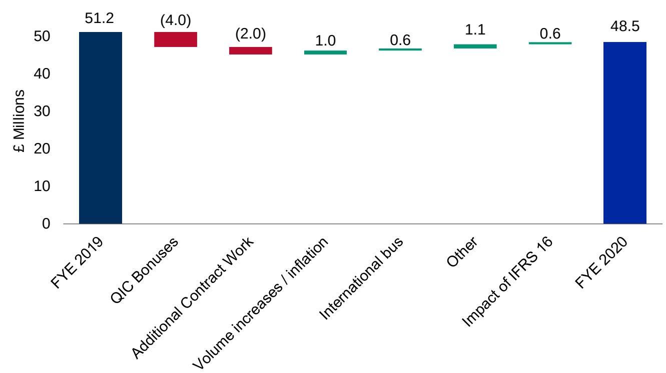
The London and international bus division also includes the contributions from Singapore (where Go-Ahead provides bus services in the Loyang district of the city since 2016) and Ireland (where Go-Ahead has operated bus services in Dublin since September 2018 and began a second Irish bus contract in late 2019, taking the total number of routes to 30). The Singapore and Ireland bus contracts are structured in a similar way to the TfL contracts, allowing Go-Ahead to leverage its experience from the London bus business.

Exhibit 6
London & International bus
Revenue and operating profit development



Projected numbers represent Moody's forward view, not the view of the issuer. Based on 'as Reported' financial data.
Source: Company, Moody's Investors Service

Exhibit 7
London & International bus
Operating profit bridge FY20 vs FY19

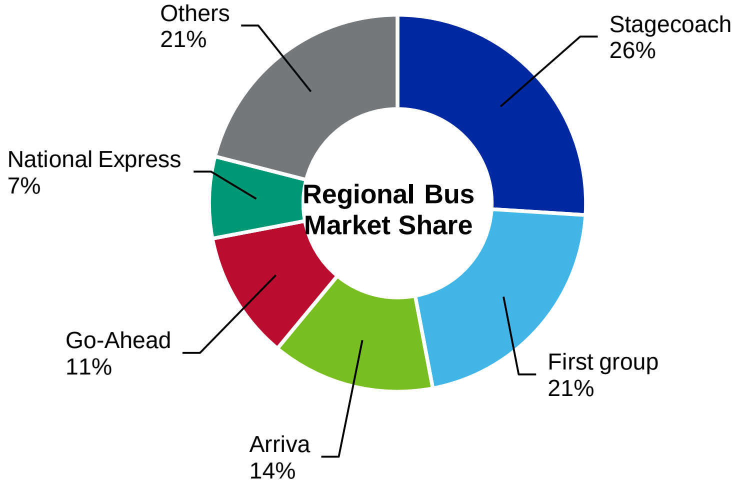


Source: Company, Moody's Investors Service

UK regional bus market has suffered from the pandemic but received government support, albeit at sharply reduced profit margins

Go-Ahead is the 4th largest regional bus operator with an 11% market share. It operates services in North East England, Brighton, Oxford, Plymouth, the south coast, East Anglia, East Yorkshire and, since 2019, Manchester. All services are provided under local brands. This choice reflects the effort to encourage a sense of engagement by customers through a close historical association of the operating companies with the communities. Go-Ahead management has been focused on building relationships with local authorities to ensure a partnership approach to bus services delivery.

Exhibit 8



Source: Company, Moody's Investors Service

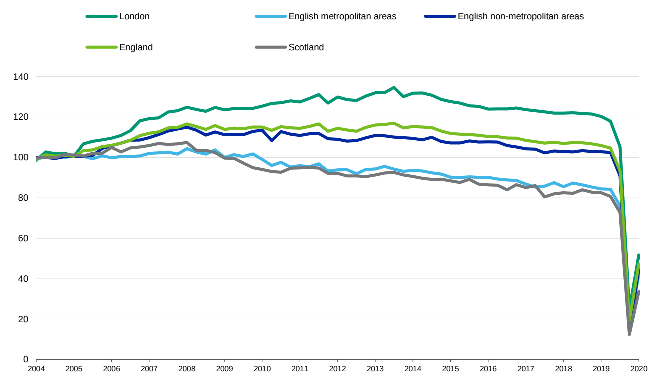
In FY20 volumes in the regional bus business declined by 25% due to the impact caused by coronavirus on travel demand and were reduced further to 10% of prior year levels during the lockdown. The volume decline resulted in a 11.4% like-for-like revenue drop. Additionally, operating profit margin was overall down to 5% (from 10.3% in FY19), supported by the government via Coronavirus Bus Services Support Grant (CBSSG), Coronavirus Job Retention Scheme (CJRS) and maintaining concessionary and Bus Service Operators Grant (BSOG) payments at pre-coronavirus levels.

Revenue and passenger journey trends in the UK bus market have recently been weak as a result of challenging market conditions and demographic changes and are significantly impacted by the coronavirus outbreak lately. The trend of falling passenger journeys is especially noticeable across the unregulated regional bus industry, for metropolitan and non-metropolitan areas alike. In the regulated London bus sector, these headwinds are less pronounced as they result in mileage reductions and the restructuring of the bus network landscape by Transport of London (TfL), leading to declining contract renewals.

Bus demand across Great Britain has been in decline since 2009. The trend of falling passenger journeys is most pronounced in Scotland (from 487 million in 2008 to 377 million in 2019, a 23% fall) and English metropolitan areas. London journeys peaked in 2014 and have fallen by approximately 10% (cumulatively) since. The decline in local bus journeys in England was 1% (to 4.31 billion) in the year ended March 2019. London passenger journeys fell by 1.2% in the same period.

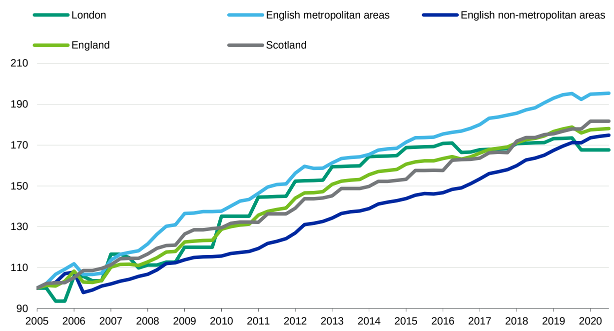
Bus fares, on the other hand, have increased steadily and consistently across all GB markets prior to coronavirus pandemic.

Exhibit 9
Passenger journeys on local bus services by area status
Index: 2004 = 100; seasonally adjusted



Source: Department for Transport

Exhibit 10
Local bus fares index (at current prices) by area status, not adjusted for inflation
Index: March 2005 = 100



Source: Department for Transport

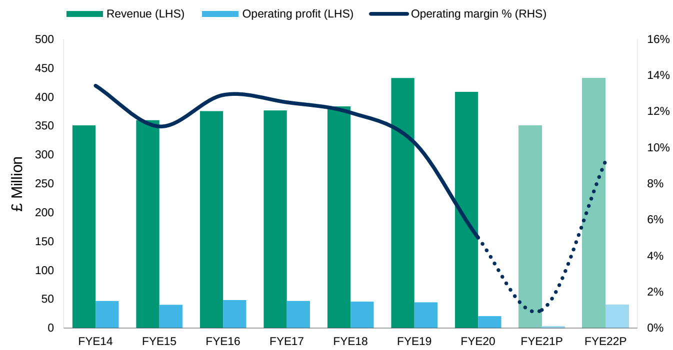
There are several reasons for the decline in passenger journeys, including (i) reduced propensity of people to use bus transportation for shopping as online services and home delivery grow, (ii) changes in working patterns (i.e. increased level of remote working or working from home), (iii) road congestion, (iv) decreased car costs from improved vehicle efficiency and fuel price declines, (v) rising car ownership among older people and competition from rapid growth in private hire vehicles, and more recently (vi) the outbreak of the coronavirus pandemic which resulted in a substantial fall in demand for regional bus services. Also, austerity has resulted in a substantial reduction in local authority subsidised bus services, which tend to cover more remote and rural areas that are otherwise not profitable for commercial bus services.

UK regional bus services are deregulated and operators have flexibility to set their own fares and timetables and to withdraw unprofitable services. Balanced management of service frequency and fare levels, in conjunction with a focus on costs, are key to driving the operators' profitability.

In the unregulated regional bus segment, Go-Ahead is exposed to pricing risk, changes in passenger volumes, and fuel price fluctuations. These risks are mitigated by a largely variable cost base.

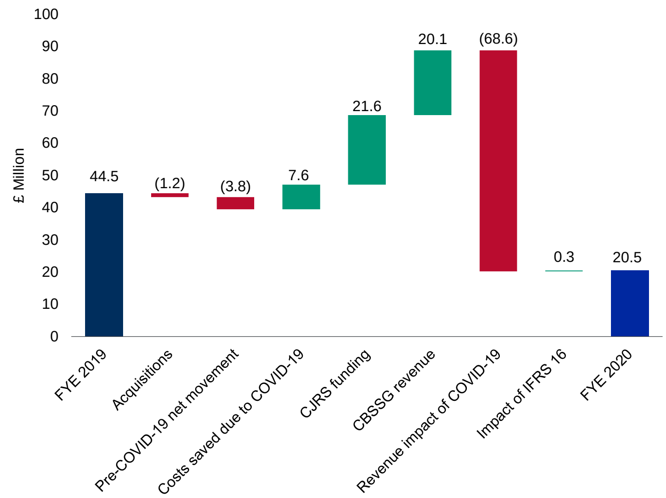
The regional bus business is the smallest contributor to Go-Ahead consolidated revenues, accounting for 10% of total revenues in FY20 (FY19: £433 million; FY18: £384 million). On the other hand, the contribution of regional bus operation to the consolidated operating profit has been historically quite substantial but has been significantly impacted by the coronavirus outbreak, accounting for 26% of the total in FY20 down by 11% compared to FY19, (FY19: £45 million; FY18: £46 million).

Exhibit 11
UK regional bus
Revenue and operating profit development



Projected numbers represent Moody's forward view, not the view of the issuer. Based on 'as Reported' financial data.
Source: Company, Moody's Investors Service

Exhibit 12
UK regional bus
Operating profit bridge FY20 vs FY19



Source: Company, Moody's Investors Service

The Bus Services Act

The Bus Services Act, which was adopted in April 2017, allows certain local authorities in England to take more control of bus services in their areas. The six mayoral combined authorities in England (Greater Manchester, Liverpool City Region, North East, Sheffield City Region, Tees Valley and West Yorkshire) have automatic access to the bus franchising powers contained in the Act without meeting any further requirements and can therefore introduce, at their discretion, a bus franchising system.

The implementation of franchises for these authorities would result in their current, mostly commercialised, bus services being replaced with a contracted bus system similar to that in London. This would require bus operators to bid for bus route contracts with stipulated revenues based on agreed service provision. As the operator would not be taking fare-box risk, franchising could lead to lower profit margins for operators.

Approximately one-third of the regional bus revenues come from concessionary fare reimbursement from local authorities and contracts which are expected to continue. Also positively, the Department for Transport announced in April 2020 a funding from the UK Government to support bus services with £167 million of new funding for the twelve weeks starting in mid-March. In August 2020, the Department for Transport confirmed that payments for the provision of these essential services by regional bus operators in England would continue until funding is no longer required. These so called Coronavirus Bus Services Support Grant Restart payments are continuing, with an eight-week notice period. This support should continue to reduce revenue erosion for the other two thirds of Go-Ahead's regional bus service that relies on commercial ticket sales. Still, the margins are likely to experience continued pressure as revenue will not be fully recouped.

Operational performance in the rail business is impacted by lower margins of Southeastern and GTR

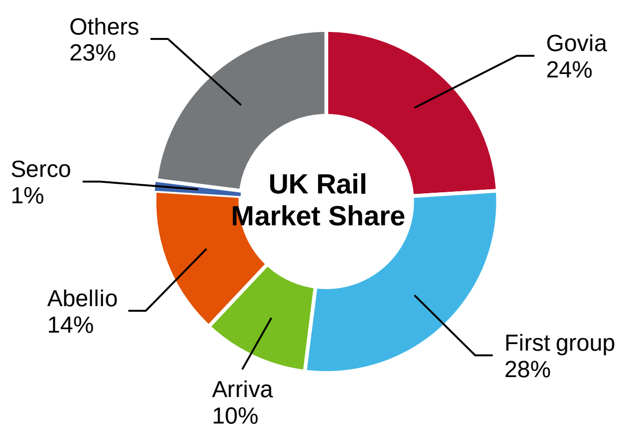
Go-Ahead has a material presence in the UK rail segment. In FY20, Go-Ahead Rail operations accounted for approximately 74% (FY19: £2,672 million; FY18: £2,527 million) of the consolidated revenues and 11% (FY19: £25 million; FY18: £45 million) of the consolidated operating profit.

On 30 March 2020, Go-Ahead also announced the renewal of its Southeastern franchise operated by Govia, Go-Ahead's 65%-owned joint venture with Keolis. The new franchise commenced on 1 April 2020 and will run until 16 October 2021. On 21 September 2020, it was announced that the Department for Transport (DfT) replaced the contract of the other UK rail franchise, GTR (Govia Thameslink Railway) by an Emergency Recovery Measures Agreement (ERMA). GTR will operate under its ERMA until the end of the contract term in September 2021, with a potential for a further extension. The new ERMA is a management contract with no exposure to changes in passenger demand and generates a margin of up to 1.5 per cent. Southeastern will continue to operate under its Emergency Measures Agreement (EMA) until October 2021, or March 2022 if extended. As part of its response to coronavirus, Go-Ahead reduced service levels where possible, limited capital expenditures and eliminated any discretionary spend. Positively, Go-Ahead is also receiving some government support as detailed below.

The operating margin in this segment has been deteriorating from FY16 when it reached its peak of 2.9% until FY 2019 when it was 0.9% and further declined to 0.3% in FY20. This deterioration was mainly driven by significant losses in Germany due to operational and commercial challenges, as well as by Southeastern operating under new contractual terms and EMA from March 2020 and GTR operating under ERMA from September 2020, allowing for lower margins.

Unlike the UK bus and coach sectors, where competition is mainly felt at operational level, most competition in the UK rail industry arises at the point of franchise award, where a key bid criteria is the operator's level of subsidy or premium required to operate a complete package of services on an area of the rail network. The bidder that stipulates the lowest subsidy receivable from the DfT or largest premium payable to the DfT has a distinct bid advantage. Since operators typically take farebox risk on UK rail franchises, the bidder that has the most exuberant passenger volume assumptions will, therefore, be able to bid the most competitive subsidy/ premium. However, if passenger volumes are lower than expected, franchise profitability is negatively impacted.

Exhibit 13
Go-Ahead (via Govia) is the largest rail operator in the UK



Source: Company, Moody's Investors Service

As part of each franchise agreement, the DfT sets minimum service requirements such as service frequency, train lengths, maximum journey times, stopping patterns, and provision of station facilities. These are set out in the Service Level Commitment for each franchise and can be varied only with the agreement of the DfT. Franchise agreements also typically contain other commitments on the part of the train operating company (TOC), which are agreed at the time the franchise is bid for. These include undertakings in relation to investment in infrastructure, rolling stock and station improvements.

The DfT regulates the existence and price of a number of rail fares, including commuter fares and the majority of long distance, off-peak fares (previously known as Saver Return tickets). The amount by which train operators can increase regulated fares each year is restricted, using a formula based on the retail price index (RPI) plus a margin.

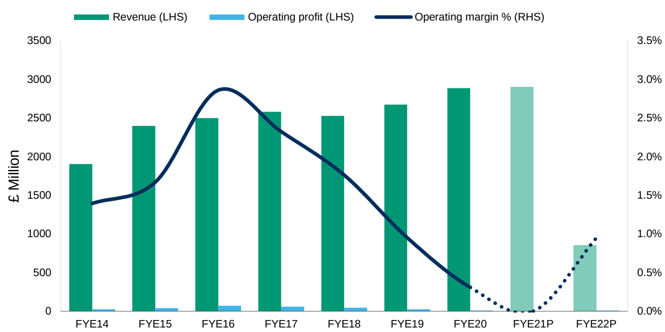
The franchising model is currently under scrutiny from the Williams Rail Review, which was expected to publish its recommendations in Autumn 2019 but has not done so yet. There has been speculation that the recommendations will include changes to franchising that would reduce operators' exposure to passenger demand risk in future franchises, which would be a credit positive for operators, including Go-Ahead.

Go-Ahead (via its majority owned Govia subsidiary) currently operates the South Eastern (through Southeastern) and the TSGN (through GTR) franchises in the UK. Neither contract carries revenues risk. Under the TSGN franchise, Govia's revenues are linked to the number of services (trains and miles operated). On 21 September 2020 it was announced that the DfT awarded an ERMA to the GTR franchise. This agreement replaces the existing franchise agreement and has been awarded until September 2021. GTR's ERMA generates a margin of up to 1.5%. Southeastern will continue to operate under its EMA until October 2021.

Exhibit 14

UK and International rail

Revenue and operating profit development and Moody's projections



Projected numbers represent Moody's forward view, not the view of the issuer. Based on 'as Reported' financial data.
Source: Company, Moody's Investors Service

Exhibit 15

UK and International Rail

Operating profit bridge FY20 vs FY19

Source: Company, Moody's Investors Service

Like its bus business, Go-Ahead is expanding its rail business internationally. In Germany, Go-Ahead started operating regional rail services in June 2019 through three 13-year contracts and a further two contracts are expected to start one at the end of 2021 and another by the end of 2022. The company experienced significant challenges at the commencement of its first German contract related to delays in rolling stock and driver shortages. Go-Ahead has addressed these issues and implemented the relevant best practices with respect to its second contract. Still, the company does not anticipate earning a profit from this business in 2021.

In Norway, the group started running its first eight-year rail contract in December 2019 covering both long distance and suburban routes. This business is operationally less challenging when compared to the German one but Go-Ahead is exposed to revenue risk.

These international rail franchises are much smaller than the UK ones and they will be relatively smaller contributors to the group results during the next few years.

We do not expect the revenue from these businesses to be significantly affected by coronavirus since they are primarily structured on a management contract basis. We also note that the margins for the rail business are quite low and do not have much cushion for compression.

Go-Ahead's credit profile has weakened as a result of coronavirus

Although a significant proportion of Go-Ahead's revenues remained supported, its margins have been negatively affected. In the London bus business, TfL continued its payments under the existing operator contracts, although it expects the operators to return any cost savings as a result of reduced service levels. In the regional bus business, the Department for Transport has agreed to provide support until funding is no longer needed; however, its award formula is focused on no cash impact and does not protect the margins. In the rail business, except for the Norwegian rail which comprises a small proportion of the business, Go-Ahead's contracts are structured on a management fee basis. Positively, the company has taken a proactive approach to cost cutting, reducing capital expenditures and suspending the dividend.

We expect that Go-Ahead's leverage measured as debt/EBITDA will remain at around 2.5x in FY2021, slightly up from 2.4x in FY2020 before increasing to 2.8x in FY2022 if the rail franchises are not extended in September/October 2021. We also expect that Go-Ahead's retained cash flow (defined as funds from operations less dividends) as a percentage of net debt will remain at approximately

55% in FY2021 and 33% FY2022 while its coverage measured as funds from operations plus interest over interest will be strong at approximately 20x-23x over the same period.

Go-Ahead's reported net debt to EBITDA was 1.76x, at the end of FY20 on an IFRS 16 basis or 1.96x on a Pre-IFRS 16 basis. This is within the 1.5x to 2.5x range (Pre-IFRS 16) targeted by the company, and well below its 3.5x covenant.

Go-Ahead's Moody's-adjusted retained cash flow (RCF) to net debt stood at 39.1% in FY2020 on an IFRS 16 basis compared to 25.6% in FY2019 on a Pre-IFRS 16 basis. On a like for like basis (Pre-IFRS 16), RCF/Net debt declined slightly to approximately 23% and is in line with our rating guidance for Baa3. The company's leverage measured as debt/EBITDA was at 2.4x during this period (IFRS 16 basis), down from 3.2x in FY2019 (Pre-IFRS 16 basis). On a like for like basis (Pre-IFRS 16), we estimate that leverage increased to roughly 4x over FY2020, showing only a small increase and is demonstrating the resilience of Go-Ahead's business model and performance throughout the pandemic.

Given the terms of the franchise obligations, in the past we did not treat the operating lease charges for the train operating company (TOC) rolling stock as debt equivalents when calculating financial metrics, but treated the cash charges pertaining thereto as operating expenditure. However, we view the contingent liabilities that Go-Ahead has to support the TOCs obligations as debt equivalents (e.g. performance bonds). Moody's believes this gives a more accurate measure of the true debt burden of Go-Ahead. In addition, a relatively material portion of Go-Ahead's cash balances is restricted, which is largely related to its rail business. With the adoption of IFRS 16 and the resulting recognition of rail lease liabilities, we follow IFRS 16 and include the present value of future rail lease payments over the franchise (as represented by the IFRS 16 liability) into the credit metrics. We do not reverse the impact of IFRS 16 on rail leases from the reported figures and will consider the impact in our metrics going forward (starting with FY20).

ESG considerations

From the environmental perspective, public transportation helps alleviate some environmental pressures by reducing individual automobile travel. Still, it is a fuel-consuming industry and the issues of emissions control and transitioning to low carbon fuels are important, along with regulation and public focus in this area. Go-Ahead is making good progress by transitioning their fleet to electric vehicles where possible and reducing GHG emissions.

We view coronavirus and the related quarantines and economic downturn as the key social consideration currently for most companies globally. The transportation sector, where Go-Ahead operates, is significantly affected by the shock and Go-Ahead remains vulnerable to the outbreak. We regard the coronavirus outbreak as a social risk under the ESG framework, given the substantial implications for public health and safety. Apart from the coronavirus, public transportation sector is also highly regulated in many regions with respect to health and safety and labour relations. Go-Ahead has a good track record of safe operations and strong relationships with regulatory bodies (notably the TfL) many of which are currently supporting their contract business (along with the national governments).

Governance considerations are typically driven by individual company ownership structures, rather than macro or sector concerns. From this perspective, Go-Ahead benefits from being a large listed firm with good transparency.

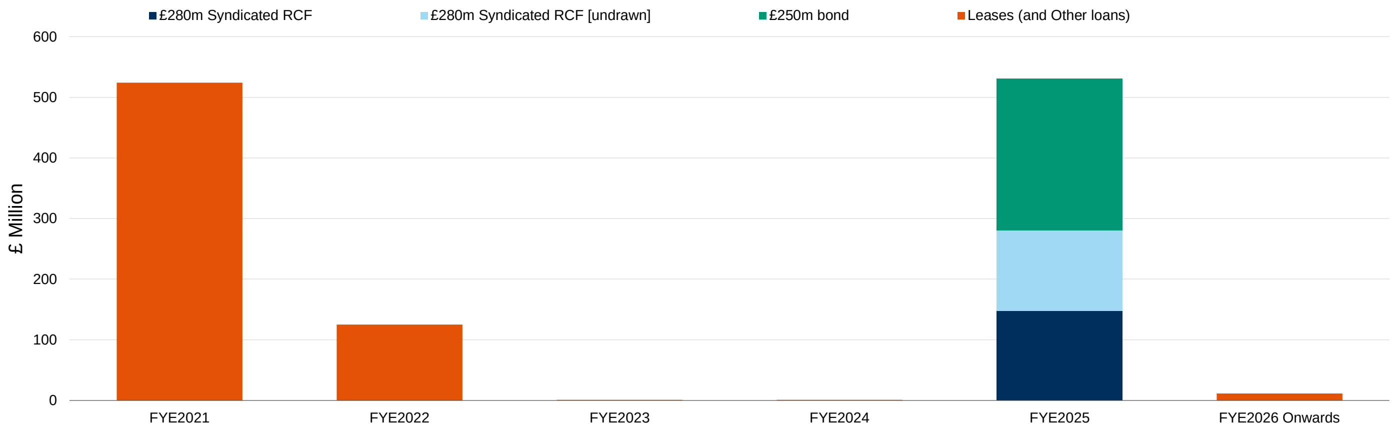
Liquidity Analysis

Go-Ahead benefits from good liquidity which consisted of £95 million of unrestricted cash and £135 million of availability on its revolving credit facility at the end of June 2020. Go-Ahead has no debt maturities until 2024, except lease principal repayments over FY21 and FY22, mostly related to the rail business. Positively, Go-Ahead also decided to suspend its interim dividend of GBP13 million payable in April 2020, as well as taking other measures to retain cash within the business, such as ceasing discretionary expenditure, limiting capital expenditure, utilising the Government's Coronavirus Job Retention scheme, and reducing fees and salaries of Board members by 20%.

The group's debt consists of two bullet maturities; the £280 million revolving credit facility (RCF) and the £250 million 2.5% coupon bonds (see Exhibit). Both the bonds and the RCF expire in July 2024 (the RCF was most recently extended from 2023 to 2024).

Beside these sterling denominated facilities, Go-Ahead has a small amount of euro-denominated debt consisting of an €8 million RCF and a €10.85 million loan, both related to its German rail subsidiary.

Exhibit 16
Go-Ahead's debt maturity profile (as of FYE-2020, £ million)



Source: Company, Moody's Investors Service

The main source of Go-Ahead's standby liquidity is the £280 million RCF. This facility contains performance covenants (both a Net Debt/EBITDA covenant and EBITDA to net interest payable covenant). Go-Ahead was in compliance with these covenants at June 2020. The facility is subject to a MAC clause, whereby any material adverse effect on the group as a whole would be an event of default under the facility. Whilst the covenant headroom is comfortable in the near term, this could rapidly tighten in the event of a sustained sharp fall in EBITDA.

Structural Considerations

Go-Ahead's Baa3 senior unsecured rating also reflects the fact that the company's rated £250 million bond due in 2024 benefits from guarantees from the following Go-Ahead group companies: (1) Go-Ahead Holding Limited; (2) Go-Ahead Leasing Limited; (3) Go North East Limited; (4) London General Transport Services Limited; (5) Metrobus Limited; (6) Go South Coast Limited; (7) Brighton & Hove Bus and Coach Company Limited; and (8) City of Oxford Motor Services Limited. The provision of these guarantees ensures that bondholders are not structurally subordinated to providers of the current bank loan facilities to the Go-Ahead group and are an important factor in the current rating.

Rating Methodology and Scorecard Factors

Go-Ahead's rating reflects our assessment of the group's overall business profile and financial performance, in line with our Passenger Railways and Bus Companies Industry methodology published in January 2021. The indicated outcome from the scorecard, on the basis of audited financial statements as of June 2020, is Baa1 and our forward view, is Baa2. The one notch difference between the assigned rating and the forward view reflects primarily the uncertainty around an extension of the rail franchises as well as lack of clarity on the timing of recovery from the pandemic.

Go-Ahead Group plc
Rating factors

Passenger Railways and Bus Companies Industry Scorecard [1][2]	Current LTM 27/6/2020		Moody's 12-18 Month Forward View As of January 2021 [3]	
Factor 1 : Scale (15%)	**Measure**	**Score**	**Measure**	**Score**
a) Revenue (USD Billion)	$4.9	Ba	$2.3-$2.5	B
Factor 2 : Business Profile (25%)				
a) Stability of Operating Environment	Ba	Ba	Ba	Ba
b) Market Characteristics	Baa	Baa	Baa	Baa
c) Competitive Environment	Baa	Baa	Baa	Baa
Factor 3 : Profitability and Efficiency (10%)				
a) EBIT Margin	2.2%	Caa	5.5%-6%	Ba
Factor 4 : Leverage and Coverage (35%)				
a) Debt / EBITDA	2.4x	Aa	2.7x-3.0x	A
b) RCF / Net Debt	39.1%	Aa	31%-34%	A
c) (FFO + Interest) / Interest	22.1x	Aaa	19.5x-21.5x	Aaa
Factor 5 : Financial Policy (15%)				
a) Financial Policy	Baa	Baa	Baa	Baa
Rating:				
a) Scorecard-Indicated Outcome		Baa1		Baa2
b) Actual Rating Assigned				Baa3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 27 June 2020.
[3] This represents Moody's forward view, not the view of the issuer, and unless noted in the text does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™, Moody's Investors Service estimates

Ratings

Exhibit 18

Category	Moody's Rating
GO-AHEAD GROUP PLC (THE)	
Outlook	Stable
Bkd Senior Unsecured -Dom Curr	Baa3

Source: Moody's Investors Service

Appendix

Exhibit 19
Peer comparison

(in GBP million)	Go-Ahead Group plc (The) Baa3 Stable			Stagecoach Group Plc Baa3 Negative			National Express Group PLC Ba1 Negative		
	FYE Jun-18	FYE Jun-19	FYE Jun-20	FYE Apr-19	FYE May-20	LTM Oct-20	FYE Dec-18	FYE Dec-19	LTM Jun-20
Revenue	3,462	3,674	3,898	1,879	1,418	1,072	2,451	2,744	2,441
EBITDA	236	229	553	267	215	168	451	497	345
Total Debt	720	730	1,331	732	1,126	1,219	1,480	2,034	2,184
(FFO + Interest Expense)/Interest Expense	10.5x	16.2x	22.1x	7.5x	8.9x	7.8x	6.6x	7.5x	4.4x
FFO / Debt	25.1%	28.2%	39.7%	37.3%	21.4%	15.5%	22.9%	19.9%	10.3%
EBITA / Average Assets	8.1%	7.4%	4.5%	8.8%	7.3%	4.0%	7.2%	7.2%	2.9%
Debt / EBITDA	3.1x	3.2x	2.4x	2.7x	5.2x	7.2x	3.3x	4.1x	6.3x
EBIT / Interest Expense	7.1x	9.5x	3.4x	4.1x	2.8x	1.3x	3.6x	3.8x	0.9x
RCF / Net Debt	20.4%	25.6%	39.1%	33.5%	22.6%	20.2%	19.6%	21.0%	12.3%

All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months.
Source: Moody's Financial Metrics™

Exhibit 20
Debt-adjustment breakdown

(in GBP million)	FYE Jun-16	FYE Jun-17	FYE Jun-18	FYE Jun-19	FYE Jun-20
As Reported Total Debt	312	359	403	413	1,059
Pensions	3	21	0	0	0
Leases	56	50	50	61	0
Non-Standard Public Adjustments	340	339	267	255	272
Moody's Adjusted Total Debt	711	770	720	730	1,331
Cash & Cash Equivalents	(74)	(74)	(118)	(146)	(95)
Moody's Adjusted Net Debt	637	695	603	584	1,236

All figures are calculated using Moody's estimates and standard adjustments. The non-standard public adjustments include performance bonds and other guarantees that are treated as debt. (FYE20: bank guaranteed performance bonds of £71 million, loan guarantee bond of £36 million and season ticket bonds of £165 million).
Source: Moody's Financial Metrics™

Exhibit 21
EBITDA-adjustment breakdown

(in GBP million)	FYE Jun-16	FYE Jun-17	FYE Jun-18	FYE Jun-19	FYE Jun-20
As Reported EBITDA	224	222	259	193	538
Unusual Items - Income Statement	0	(1)	(8)	(0)	14
Pensions	4	2	(33)	18	1
Leases	19	17	17	18	0
Non-Standard Public Adjustments	0	0	1	1	1
Interest Expense - Discounting	(2)	0	0	(1)	(1)
Moody's Adjusted EBITDA	244	240	236	229	553

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

Exhibit 22

Selected historical Moody's-adjusted financial data

(in GBP million)	FYE Jun-16	FYE Jun-17	FYE Jun-18	FYE Jun-19	FYE Jun-20
INCOME STATEMENT					
Revenue	3,361	3,481	3,462	3,674	3,898
EBITDA	244	240	236	229	553
EBITDA margin %	7.3%	6.9%	6.8%	6.2%	14.2%
EBIT	170	157	135	129	84
EBIT margin %	5.0%	4.5%	3.9%	3.5%	2.2%
Interest Expense	19	18	19	14	25
BALANCE SHEET					
Cash & Cash Equivalents	74	74	118	146	95
Total Assets	1,632	1,667	1,758	1,863	2,271
Total Debt	711	770	720	730	1,331
CASH FLOW					
Funds From Operations (FFO)	194	192	181	206	529
Capital Expenditures	(131)	(162)	(162)	(113)	(470)
Dividends	57	63	58	57	46
Retained Cash Flow (RCF)	137	129	123	149	483
Free Cash Flow (FCF)	32	(72)	(50)	69	(57)
INTEREST COVERAGE					
EBITDA / Interest Expense	13.0x	13.1x	12.4x	16.9x	22.0x
(FFO + Interest Expense) / Interest Expense	11.3x	11.5x	10.5x	16.2x	22.1x
LEVERAGE					
FFO / Debt	27.3%	25.0%	25.1%	28.2%	39.7%
RCF / Net Debt	21.5%	18.5%	20.4%	25.6%	39.1%
FCF / Net Debt	5.1%	-10.4%	-8.3%	11.8%	-4.6%
Debt / EBITDA	2.9x	3.2x	3.1x	3.2x	2.4x
Net Debt / EBITDA	2.6x	2.9x	2.6x	2.6x	2.2x
Debt / Book Capitalization	115.3%	109.1%	87.5%	84.0%	96.7%

All figures are calculated using Moody's estimates and standard adjustments.
Source: Moody's Financial Metrics™

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Moody's
INVESTORS SERVICE