

Our markets

Transport links are critical to support economic activity, to combat climate change and for our communities to flourish.

Although the coronavirus pandemic and the actions taken to restrict its spread have reduced activity levels in all our markets, they have also shown how important transport links are. Our operations are part of the critical infrastructure that underpins the functioning of our economies and communities, and we play a vital role in taking private car journeys off the roads; reducing congestion, improving air quality and helping to lower carbon emissions. Whilst there are many near-term uncertainties, in the longer term, public transport will be crucial to restoring economic growth, combating climate change, and improving quality of life for people and communities.

Congestion

In our key UK and North American markets, more than 80% of the population live in urban areas. In 2019, congestion was estimated to have cost the UK and US economies £6.9bn and £88bn respectively. Many (particularly young) urban dwellers are also choosing not to drive at all, given the costs of buying and maintaining a car and the issues of parking and sustainability. As economies recover from the global coronavirus pandemic, low-carbon transport systems that reduce congestion and improve air quality will be pivotal to sustaining healthy, connected communities, providing an essential service to those that need it whilst also helping to free up the street space for more active transport options like walking and cycling.

- **Making the shift** - read about our sustainability aim for: **More people using bus and rail services, increasing ridership and taking private car journeys off the road on page 39.**

Potential of our vehicles to reduce congestion

1 First Transit  = 42 

1 First Student  = 36 

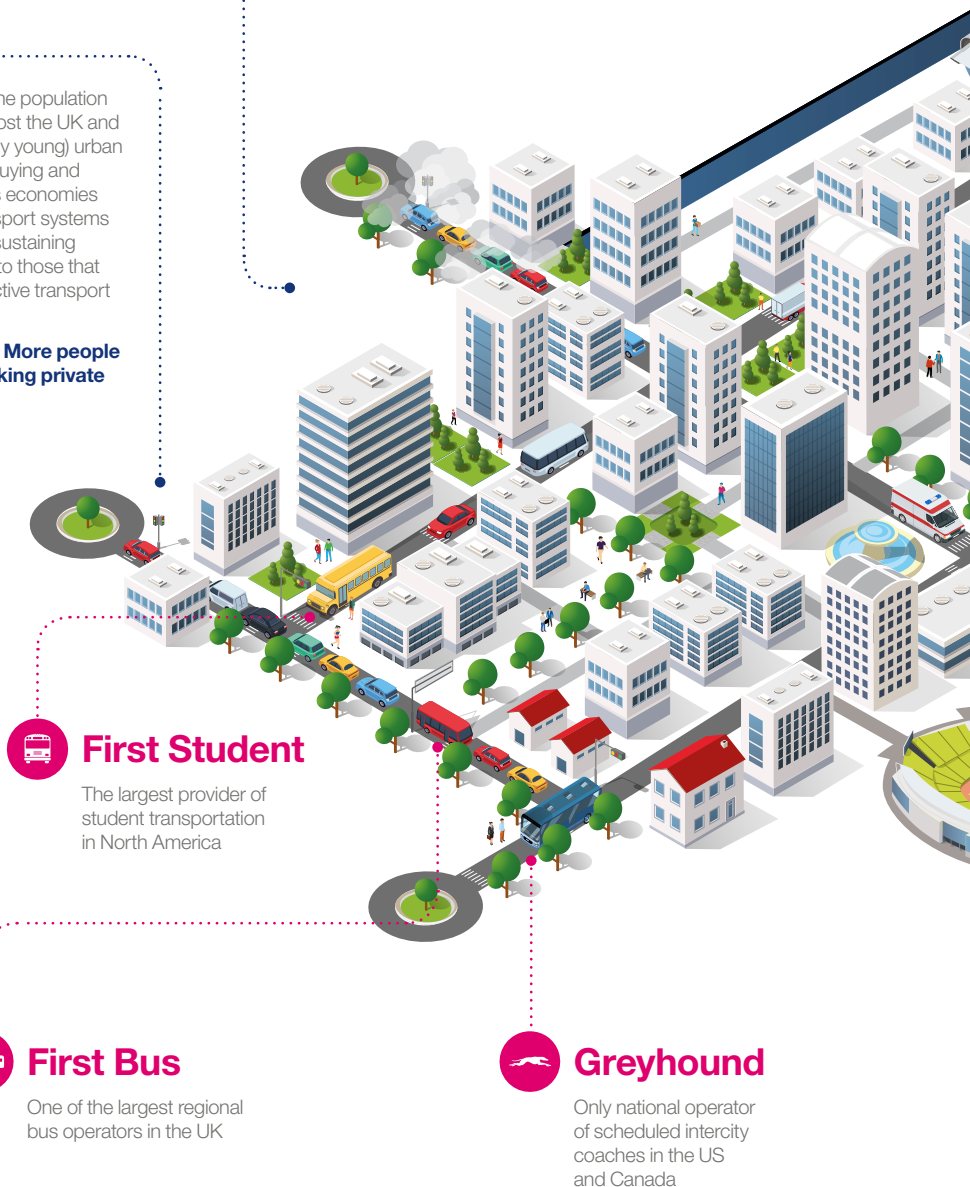
1 First Bus  = 68 

- **For more information on the market environment for each of our divisions please go to the Business review section starting on page 18.**

Air quality

Air quality has a significant impact on the health of our communities, and many cities and towns are already working to place restrictions on the most polluting vehicles and prioritise public transport. An important aspect of improving local air quality is to make the shift away from car journeys, and to invest in convenient and cost-effective low emission public transport networks. Communities around the globe have noted the value of improved air quality during the coronavirus lockdown, and there is a groundswell of support for making this a long-term reality. We will continue to innovate and invest in our fleets to help improve local air quality in our towns and cities.

- **Air quality** - read about our sustainability aim for: **Improving local air quality in our towns and cities through cleaner fleets on page 40.**



Demographics






Many segments of our communities – such as those in education, retired or those unable to drive themselves – have always been more reliant on mass transportation and these groups are growing, in part due to the rapidly aging population in many parts of the world. While certain people may reassess the frequency and purpose of their travel habits following the coronavirus pandemic, our customers will always want to visit friends and family affordably, students will still need to go to school or university and many in the global workforce will still need to commute to jobs that cannot be done at home. A smoother spread of passenger demand through the day would enhance the efficiency of our fleet usage.

Climate change

Climate change continues to be the greatest long-term challenge of our times, requiring collaboration and action on a global, national and local scale never seen before. Public transport already plays a critical role in reducing congestion on our roads, improving air quality and helping to lower carbon emissions. Now, we're going further by trialling, testing and investing in new technologies to step up to the challenge of decarbonisation and to support the transition to a zero-carbon world. See pages 38 to 41 for more information on our Group-wide strategic framework for sustainability, and pages 57 and 58 for our latest carbon and energy performance.

➤ **Zero-carbon** – read about our sustainability aim for: **Eliminating the carbon emissions associated with our operations on page 40.**

Carbon emissions per passenger kilometre (gCO₂e)

First Rail (fleet average)	
	34 ■
Greyhound	
	34 ■
First Bus	
	76 ■
New car (UK)	
	82 ■
Domestic flight (US)	
	258 ■



First Rail

One of the UK's largest and most experienced rail operators

Smart, connected communities

Our communities are being shaped by rapid advances in electric mobility and automation, and transformed thanks to ever increasing digital connectivity, powerful data analysis and new technologies. Our transport systems are becoming smarter, more connected and increasingly demand responsive. The economic, social and environmental prosperity of our towns and cities benefit as we use technology to tackle congestion, support decarbonisation and connect people and communities in smarter ways. We are leaders in the operation and maintenance of electric and autonomous vehicles, and we continue to invest in the technology and services to support connected and on-demand travel, including Mobility as a Service (MaaS).



First Transit

One of the largest providers of transit management and contracting services in North America

Local and national authorities

People need to travel for a wide range of reasons – business, education, healthcare, social and recreation – and across our five divisions we respond to these needs for our customers. The range of social and economic benefits of travel to communities in our core UK and North American markets has been recognised in the measures that governments have put in place during the coronavirus outbreak to sustain our services as well as the activities which are mandated or financially supported by the communities we serve over the longer term. Because of the importance of our services to restoring economic growth and reconnecting communities, governments and customers are also providing us with funding to ensure we can rapidly increase services while maintaining social distancing as travel restrictions in our communities ease.

Our markets by division

Each of our five divisions is a leader in its market, and all have opportunities to create long-term value.

More information on how the coronavirus pandemic has impacted our businesses and how we have responded, as well as how it may impact the structure of our markets in the future, can be found in the Business review section starting on page 18.



First Student

Market review and trends

North America's 14,000 school districts deploy around 520,000 yellow school buses and more than 90,000 smaller 'vans' to provide home-to-school transportation for millions of students. The total yellow school bus market is estimated to be worth around \$25bn per annum with an additional \$4bn market for special education transport. Approximately 38% of the total yellow bus fleet is outsourced by the school districts to private operators, with the remainder operated in-house.

Demand for home-to-school services is principally driven by the size of the school age population. School districts are funded from state and local sources, including property tax receipts, and their budgets (of which transportation is a small part), tend to be linked to the macroeconomic climate.

Customers

School districts' obligations to provide student transportation are determined by criteria set at state level. Contracts are typically three to five years in duration after which they are often competitively retendered, and specify fixed or annually indexed pricing, meaning that private operators bear cost risk. In addition to customers outsourcing for the first time ('conversion'), and the price indexation, growth is also driven by additional routes due to population growth or other factors ('organic growth'). Special education transport is a smaller but faster growing segment of the home-to-school market.

Competitors

The private outsourced market is highly fragmented, with only three companies operating fleets of more than 10,000 buses; together they account for around 40% of the outsourced market. 15 other operators have 1,000+ bus fleets, and the remaining 45% of the outsourced market is operated by more than 1,000 small local operators. 'Share shift', or winning contracts previously managed by other providers, together with acquisitions, offer further growth potential.

Market attractions

- Multi-year contracts with public sector customers, typically low credit risk
- Typically high levels of contract retention
- Customer service, security and safety track record often as important as price
- Fragmented marketplace – multiple M&A opportunities.



First Transit

Market review and trends

The transit market is worth around \$29bn per annum in North America, of which approximately a third is outsourced. Private providers manage, operate, maintain and organise transportation services for clients under contracts that typically last for three to five years. The market includes fixed route bus services (c.\$18bn segment, of which around a fifth is outsourced), paratransit bus and related services (c.\$4bn segment, around two thirds outsourced), shuttle services (c.\$3bn segment, around two thirds outsourced) and vehicle maintenance services (c.\$4bn segment, more than a third outsourced).

Customers

A wide range of customers contract out fixed route and paratransit services, including municipal transit authorities, federal, state and local agencies. These contracts typically are to operate and manage vehicle fleets owned by the client. Institutions such as universities, hospitals, airports and private companies are the main clients for the shuttle segment, and often require provision of the vehicle fleet. Vehicle maintenance services include contracts for private and public sector clients such as municipal fire and police departments. Customer demand for a broader range of mobility services solutions is increasing.

Competitors

First Transit has c.14% of the outsourced market in North America, which accounts for c.34% of the total market. The outsourced transit market is fragmented, though First Transit has two large competitors, MV Transportation, Inc. and Transdev North America.

Market attractions

- Multi-year contracts with public sector customers, typically low credit risk
- Typically high levels of contract retention
- Modest levels of capital required in most segments
- Established relationships with transit authorities provides a platform to grow in nascent Mobility as a Service (MaaS) and Shared Autonomous Vehicle (SAV) markets.



Greyhound

Market review and trends

In the past ten years the US intercity coach industry has enhanced its relevance to potential passengers through improvements in the on-board experience and new or improved offerings such as point-to-point 'express' services on high density routes. The potential market size remains a significant opportunity, with an estimated 42m people considering coach travel every year. A combination of convenient city centre destinations, a broad national network, tailored services and price has the potential to grow ridership and frequency of use. In many rural areas Greyhound is the only alternative travel option to the private car.

Customers

North American intercity coach firms serve a wide range of customers, many of whom prioritise value and whose primary purpose is to visit friends and family. Direct point-to-point services attract a younger, urban demographic with less interest in maintaining a private car.

Competitors

Intercity coach services compete with many other modes of mid- to long-distance travel across North America, including budget airlines and the private car. The intercity coach market is highly competitive especially point-to-point services in dense travel corridors such as the US north east and north west, where coach also competes with air and rail.

Market attractions

- Private car use becoming less attractive to customers, due to increasing urbanisation, congestion and overall costs of motoring
- Target demographic segments responsive to innovation through technology, value-for-money offering and environmental impact of car ownership
- Opportunities to expand penetration and footprint in US and Mexico
- Underutilised services may be part-funded by transport authorities.



First Bus

Market review and trends

Local bus services in the UK (outside London) have been deregulated since the 1980s, with most services provided by private operators, though a small number of local authority-owned operators still exist. In local bus markets, operators set fares, frequencies and routes commercially while operating some 'socially necessary' services under local authority contracts. Around 2.6bn passenger journeys are made on bus services outside London, generating revenues of approximately £4.1bn a year.

Partnerships between operators and local authorities are a core principle for the industry and government, to support service delivery, minimise congestion and drive innovation and investment. There is a growing recognition at all levels of government that buses have a huge role to play in achieving social and environmental ambitions and improving local economies. In February 2020 a new five-year, multi-billion pound industry funding package was announced to support thousands of new green buses, simpler fares, improved routes and higher frequencies.

Customers

Bus market revenues principally comprise passenger ticket sales and concessionary fare schemes (reimbursements by local authorities for passengers entitled to free or reduced fares). A significant proportion of customers use bus services to commute (to work or education), to shop and for leisure. Income is also generated through tendered local bus services and bespoke contracts such as Park & Ride schemes.

Competitors

The UK bus market (outside London) is deregulated and highly competitive with hundreds of operators; we face competition in all markets in which we operate. Through the year operators have both entered and left the market. The main competitor is the private car.

Market attractions

- Growth potential from strategies tailored to specific customer segments enhancing convenience and supporting clean air strategies
- Opportunity in youth demographic, where car ownership is falling
- Local buses account for 57% of all journeys by public transport in England – important component of local authorities' ability to fulfil their air quality obligations
- Bus travel diversified by journey purpose.



First Rail

Market review and trends

Passenger rail services are primarily provided by private train operating companies (TOCs) through franchises awarded by the relevant authority, but may also be provided on an open access basis. Many elements of the service provided to customers are mandated as part of the franchise contract and others are left to commercial judgement. Total franchised passenger revenues in the UK are more than £10bn per annum. Rail tracks and infrastructure (signalling and stations) are owned and managed by Network Rail, and TOCs typically lease most stations from Network Rail and rolling stock from leasing companies.

The UK's rail franchising system is currently undergoing a major review and there is currently uncertainty as to the likely balance of risks and rewards for franchising in future.

Customers

Rail markets are generally categorised into three sectors: London and south east commuter services; regional; and long distance. Certain networks also offer sleeper services. Parts of Great Western Railway (GWR) fall into all four categories. South Western Railway (SWR) customers are largely commuters. TransPennine Express (TPE) and Avanti West Coast are mainly long distance intercity operations, and Hull Trains caters to long distance and leisure travellers.

Competitors

The main competitor to rail in the UK is the private car. On some passenger flows there is competition from other rail services and, to a lesser extent, from long distance coach services and airlines. First Rail bids for franchises against other operators of current UK rail franchises and public transport operators from other countries.

Market attractions

- More than £10bn of long-term contract-backed passenger revenue available through 19 major contract opportunities
- Franchises have significant risk and reward opportunity for operators, and a capped downside with generally low overall capital intensity
- Regulated environment, including government-capped regulated fares
- Historically high levels of passenger numbers across the UK.