

Continuing operations: First Bus



Janette Bell
Managing Director, First Bus

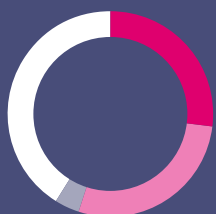
- **Support passengers' travel needs as pandemic restrictions ease**
- **Progress ambitious zero carbon fleet plans**
- **Further progress toward 10% margin objective**
- **Medium-term growth from adjacent opportunities and National Bus Strategy**

Approximate First Bus market share of UK market outside of London (%)



● First Bus	20
● Others	80

2021 approximate revenue by type (%)



● Commercial passenger revenue	27
● Concessions	28
● Tenders	4
● Other	41

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. In a typical year around 2.6bn passenger journeys are made on bus services outside London, generating approximately £4.3bn in revenue.

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. This was recently demonstrated by the National Bus Strategy announced in March 2021, which includes a multi-billion pound funding package to support simpler fares, improved services and thousands of new green buses via local authority-led enhanced partnerships or franchising.

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; consequently 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
- Opportunities in the youth demographic where car ownership is falling
- Bus travel diversified by journey purpose.

	2021	2020
Revenue	£698.9m	£835.9m
Adjusted operating profit	£36.6m	£46.1m
Adjusted operating margin	5.2%	5.5%
Average number of employees	14,500	16,500

First Bus reported revenue of £698.9m (2020: £835.9m), reflecting the effects of the coronavirus pandemic during the year. Government guidelines to avoid all but essential travel throughout the year meant like-for-like passenger revenue during the year as a whole was 49% lower, with commercial passenger volumes 66% lower, although volumes were higher at times during the various periods of lockdown easing. We are encouraged that passenger volumes have recovered to c.60% of pre-pandemic levels in recent weeks, particularly since certain social distancing restrictions on buses in England started to be eased in early April.

We worked very closely with local authorities and other partners throughout the year to ensure that key workers were able to rely on our services for their essential journeys during the pandemic. The UK Government and devolved administrations put in place a range of measures which were in place throughout the year to secure continuity of service on these crucial routes which would otherwise have had to cease. Measures included the rolling CBSSG and its successor programme in England, mirrored by similar arrangements in Scotland and Wales. Under these arrangements, First Bus is paid the costs of operation less revenue received from customers and other public sector monies. Recoverable costs include all reasonable operational costs including depreciation and allocated debt finance together with pension deficit funding. Fixed costs were also reduced by £3.0m in the year.

As a result of these agreements, the division reported adjusted operating profit of £36.6m (2020: £46.1m), which is calculated before debt finance costs and pension deficit contributions which pay down the balance sheet deficit. Reported statutory profit was £30.8m (2020: £32.4m), principally reflecting the adjusted operating profit partially offset by the impairment of land and buildings.

Digital transformation

In recent years our digital transformation has placed First Bus at the forefront of the industry, including for real-time passenger volume data capture, GPS functionality and ticketing. We now have an enhanced capability to

assess passenger flows, and make subsequent commercial decisions, with greater speed and precision. Throughout the pandemic this allowed us to continuously adjust services in consultation with local stakeholders to ensure they met travel demands. Going forward, this data will be fundamental in enabling us to continue to shape our networks to align with evolving customer needs and trends while being commercially sustainable. This will be particularly relevant during the eight-week transitional period before the CBSSG scheme ends following the lifting of social distancing restrictions on public transport. In the year we also used our new digital platforms to develop a technical solution to mitigate bridge strike risks.

Customer experience

Our digital transformation has included enhancements to the customer experience. During the year, we were the first operator to introduce innovative functionality to our mobile app and websites, enabling customers to check the real-time available capacity on an approaching bus, including the wheelchair space. Furthermore, this technology allows customers to check how busy their bus is likely to be on any day of the week and time of day. Two-thirds of all ticket transactions now involve our mobile app or other contactless payment methods. Daily and weekly contactless 'tap and cap' fares are now being rolled out to multiple locations across the network, while in September 2020 we were the first national bus operator to introduce Express Mode for Apple Pay across all networks.

National Bus Strategy

Buses are vital to help deliver wider economic, social and environmental goals and we fully support the UK Government's National Bus Strategy (NBS), published in March, which provides a clear framework and £3bn in funding for bus operators and local government to promote bus use in England, including funding allocated for 4,000 new zero emission buses across the country. We are working with local transport authorities in our areas to develop the Bus Service Improvement Plans and Enhanced Partnerships as outlined in the NBS, which will align services to the needs of local bus customers and enable access to the funding available to help deliver them in the coming years. We already work closely and effectively with local authorities and the partnership approach will enable us to build on these strong local relationships as we move toward recovery and work to improve customer experience.

Fleet decarbonisation

During the year we announced our commitment to operate a wholly zero emission bus fleet across the UK by 2035 and will not purchase further diesel buses after December 2022. In January, we began operating the world's first fleet of hydrogen powered double-decker buses in Aberdeen, supported by funding from the city council, Scottish Government and the EU. In Yorkshire we introduced new electric double-decker buses to our all-electric York Park&Ride fleet as well as new electric buses for Leeds, in partnership with local and regional authorities.

In Glasgow a partnership between First Bus and Transport Scotland announced in March will replace 126 of the oldest buses in our fleet with electric vehicles for the city, in addition to the 24 buses already in operation or on order. Ahead of the UN COP26 Climate Change Conference which takes place in Glasgow in November 2021, this ambitious collaboration will also begin transforming our Caledonia bus depot, the UK's largest, into one of the country's biggest electric fleet charging stations, with the potential for 162 vehicles to be recharged at a time. In January we completed the retrofit of our 1,000th bus to the Euro VI low emission standard, and just under half of our fleet now meet this benchmark.

As zero emission bus technology is developing rapidly, we are working with a number of vehicle manufacturers to evaluate and shape the key attributes of these vehicles. In February 2021, for example, we announced that we will be the first operator in the UK to trial the unique vertically integrated electric bus technology from Arrival.

First Bus medium-term outlook

Passenger volume and revenue levels following the pandemic are difficult to forecast with any certainty. However, our current expectation is that volumes will recover to c.80-90% of pre-pandemic levels during the first year after social distancing restrictions on public transport end, with further growth thereafter.

We expect that the effect of any initial volume reductions due to post-pandemic changes in customer behaviour will be mitigated over time by targeted network changes, the profound support for modal shift and increasing bus patronage provided by the NBS, as well as our new data-driven pricing strategy and ticketing innovations. First Bus has a significant level of operational gearing and this, together with the operational and engineering efficiency programmes we have in place as well as cost improvements to the business already made, means that we expect to deliver 10% margins in the first full financial year after pandemic-related social distancing restrictions on public transport end, in a range of potential passenger volume scenarios.

We are also building on our existing platform of contracted fleet services for commercial customers in order to deliver further revenue growth and capital efficiency. We are also well positioned to develop solutions in the nascent UK market for Mobility as a Service (MaaS), thanks to collaboration with First Transit colleagues.

Looking ahead, we are already a leader in the industry for low emission vehicles and look forward to playing our part in decarbonising the UK economy. Bus networks are key to supporting modal shift particularly from cars to sustainable, zero carbon public transport, a key part of the UK's climate change goals.

As recognised in the NBS, there is also a significant, growing role for buses to help deliver on national and local government commitments to reduce congestion and air pollution, improve city connectivity and 'level up' parts of the country through improved economic infrastructure and opportunity. Buses are the most flexible, value for money solution for providing the critical public transport services which are so essential to local economies and communities. The fundamentals for a resurgent bus business are sound, and we look forward to playing an important role in a robust, and environmentally sustainable, recovery.

Our bus network and driver management system

We were the first bus operator to introduce an advanced data analytics system from Optibus. This system reduces the time required to create and amend bus schedules, and uses machine learning to optimise both driver and vehicle hours. We are due to complete deployment of Optibus across First Bus in the current year.





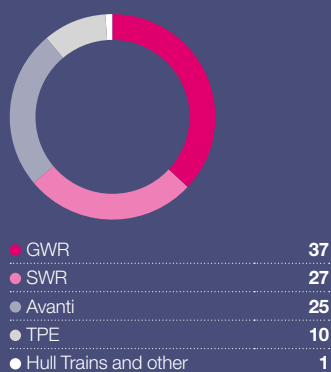
Continuing operations: First Rail



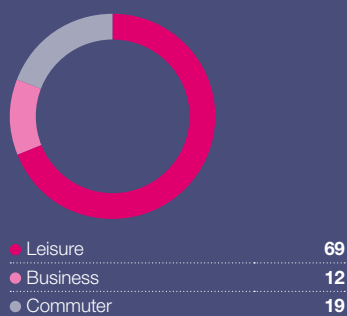
Steve Montgomery
Managing Director, First Rail

- **Manage service levels as the pandemic restrictions ease**
- **Complete transition to new National Rail Contracts**
- **Continue to develop ancillary revenue streams**
- **Support UK Government as industry completes evolution toward new long-term model**

Passenger revenue base by operating company (%)



Passenger revenue base of First Rail operations (%)



Market review and trends

Passenger rail services are primarily provided by private train operating companies (TOCs) through contracts awarded by the relevant authority, but may also be provided on an open access basis.

The majority of the service elements provided to customers are mandated as part of the contract and others are left to commercial judgment. Rail track and infrastructure (signalling and major stations) are owned and managed by Network Rail, and TOCs typically lease rolling stock from leasing companies and most stations (which they manage) from Network Rail.

The UK's passenger rail contracting system is currently undergoing a transition to a new structure with operators more heavily incentivised to improve passenger service metrics and a lower risk/lower reward financial profile.

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 GWR fall into all four categories. SWR customers are largely commuters. TPE and Avanti 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 contracts against other current UK rail operators and public transport operators from other countries.

Market attractions

- More than £10bn of contract-backed passenger revenue in a typical year through 20 major contract opportunities
- New contracts have no revenue risk and clear performance-based fee opportunities, with low capital intensity
- Regulated environment, with limited cost risk protected by annual budgeting
- Historically high levels of passenger numbers across the UK pre-pandemic.

	2021	2020
Revenue	£3,619.9m	£3,203.7m
Adjusted operating profit	£108.1m	£70.4m
Adjusted operating margin	3.0%	2.2%
Average number of employees	17,500	14,000

First Rail revenue increased to £3,619.9m (2020: £3,203.7m) reflecting a full year of the Avanti contract, which commenced operations in December 2019. Tramlink is also reported within First Rail for the first time, with the comparative restated accordingly. Excluding Avanti and Tramlink, like-for-like passenger revenues decreased by 84%, with passenger volumes 79% lower due to the effects of the pandemic. Passenger volumes increased to some extent during periods of lockdown easing throughout the year, and stand at c.42% of pre-pandemic levels on average as of mid-July, although under the new contractual arrangements in place during the year and going forward in the industry, changes in revenue no longer affect our financial performance. We continue to work closely with the DfT on the level of service provision as government guidance changes, and in the summer of 2020, and again from May 2021, we increased services to c.90% of prior levels to support increased travel activity.

The UK Government acted quickly to ensure the country's vital rail networks could continue to operate during the pandemic by introducing Emergency Measures Agreements (EMAs) which were in place for much of the first half of the year.

Under these agreements, the DfT waived revenue, cost and contingent capital risk and our TOCs were paid a fixed management fee to operate at agreed service levels, as well as a performance-based fee. The EMAs were superseded in autumn 2020 by Emergency Recovery Measures Agreements (ERMAs) for Avanti, SWR and TPE which were similar in structure, the principal differences being that fees have a lower overall potential and were more heavily weighted to performance delivery. In the first phase, we were very pleased to have scored the highest performance marks across all categories for all four of our rail contracts.

Adjusted operating profit was £108.1m (2020: £70.4m), which reflects the fees paid, including a first-time contribution from Avanti, the settlement of historical claims mainly in GWR in H1 and a £(10.2)m loss from Hull Trains open access reflecting its suspension during parts of the year. The division reported a statutory operating profit of £203.8m (2020: £69.3m), including a partial reversal of prior year impairments for SWR and TPE following agreements reached on rail franchise termination sums and other amounts due to the DfT (see below).

Contracted Rail net attributable earnings in the year – being the Group's share of contracted rail fee income available for dividend distribution up to the parent company – was £42.3m.

Transition to National Rail Contracts

Each ERMA required us to agree with the DfT what, if any, remaining payments were required to conclude the pre-existing franchise agreements, a process which Avanti, SWR and TPE have now completed (there is no termination sum process for GWR given that this contract was entered into after the transition to the EMAs). These termination sums are paid at the end of the ERMA term, at which point the pre-existing franchises also end, and allowed us to move forward with discussions on new National Rail Contracts (NRCs).

The SWR and TPE ERMA's duly expired at the end of May 2021 and the two TOCs are now operating under the first two NRCs to be agreed. Both have been awarded for a two-year term to the end of May 2023 with an option to be extended by up to two further years at the DfT's discretion. Under the NRCs the DfT will retain all revenue risk and substantially all cost risk. There is a fixed management fee and the opportunity to earn an additional performance fee. For the Group's 70% share of the First MTR joint venture for SWR the fixed management fee is £3.3m p.a. and there is the opportunity to earn an additional fee of up to £9.9m p.a. which is the maximum attainable performance fee. For TPE the fixed management fee is £2.3m p.a. and there is the opportunity to earn an additional fee of up to £5.2m p.a. which is the maximum attainable performance fee. Punctuality and other operational targets required to achieve the maximum level of performance fee are designed to incentivise service delivery for customers.

The NRCs achieve a more appropriate balance of risk and reward between FirstGroup and the Government. They carry no significant contingent capital risk and there are limited scenarios in which this contingent capital can be called upon, primarily in the event of early termination of the contracts by the operator. SWR and TPE will continue to be fully consolidated in the Group accounts with the net cost of operations and capex to be funded in advance by the DfT. The Group will receive an annual dividend from the TOCs reflecting the post-tax net management and performance fees. These dividends are expected to be paid each September following the completion of the TOC audited accounts.

For Avanti, the ERMA is in place to the end of March 2022 and can be extended by a further six months. We are discussing an NRC which could last up to 31 March 2032, with the core and extension periods to be determined. Meanwhile the DfT recently exercised its option to extend the EMA for GWR until 12 December 2021, subsequent to which it is expected that GWR will move on to an NRC in due course.

Open access operations

Hull Trains was not eligible for the EMAs or ERMA's, and as a result the service was temporarily suspended on three occasions during the year when nationwide lockdowns took place, but has now been restored with encouraging passenger volumes returning. We are on course to launch a second open access service between London and Edinburgh in autumn 2021. This will provide a value for money and sustainable way to travel between the two capitals, where domestic air travel currently has a significant share of journeys. Reflecting start-up costs for East Coast and the uncertain demand environment, we expect our open access operations to record a c.£20m loss in the current financial year, before making a profit contribution from FY23.

Customer experience innovation

As travel restrictions ease, our TOCs are working collaboratively with industry partners and stakeholders to build back patronage, while delivering plans to upgrade our service offering. These plans include the introduction of flexible commuter tickets and continuing to facilitate a move towards electronic and mobile ticketing, smartcards and improved apps. New functionality includes the ability for Avanti passengers to have refreshments delivered to

them without leaving their seat. Avanti has also become the first UK TOC to offer an additional class of travel as part of its services. Standard Premium will give customers greater choice of facilities, and is initially available to buy as an upgrade on the day of travel with advance tickets on sale later this year.

Innovation and adjacent rail opportunities

In the year we developed and deployed new technology such as next generation onboard 5G Wi-Fi from evo-rail, developed in-house by First Rail. This pioneering system was first trialled on the Isle of Wight, and later this year will be installed on a 70km section of the SWR mainline, followed in 2022 by a roll out on the London to Birmingham section of Avanti's network.

Our industry-leading cloud technology and analytics systems have allowed us to integrate real-time data from several systems on to a single platform branded Mistral Data that enables our teams to identify and resolve potential problems before they arise. The platform also provides information to our customers via website and mobile app channels on the formation and facilities available on each train, which gives customers the ability to plan their journey with confidence.

During the year we further integrated a variety of customer-facing and back office functions into our passenger service centre, which was built based on scalability and the latest technology. The shared service centre operates at a lower cost than our previous outsourcing arrangements and provides a single service for customer queries across several First Rail operations.

We continue to provide our consultancy experience as 'shadow operator' to the HS2 infrastructure project. During the last financial year we completed more than 40 deliverables, including technical and financial baseline reviews of operational plans for HS2, a fresh view of the travel market on the West Coast corridor and employee engagement planning.

First Rail continued

Fleet decarbonisation

First Rail has an important contribution to make in meeting the challenges of climate change and we are working with our partners to reduce carbon emissions, for example through the introduction of electric trains to replace diesel where possible. Our expertise and capability will help the Government deliver its ambition to remove all diesel-only trains from service in the UK by 2040.

GWR have recently taken delivery of the UK's first tri-mode train which can use overhead wires, third rail or diesel power. Plans to upgrade the SWR fleet continue with new suburban rolling stock starting to enter service this year and a new depot at Feltham was completed in order to stable this fleet. New all-electric and bi-mode trains will also be introduced by Avanti next year to replace diesel-only trains in the current fleet.

First Rail medium-term outlook

For some time we have advocated for a longer-term approach to the railway with passengers at the core, underpinned by a more sustainable balance of risk and reward for all parties, and welcomed the Williams-Shapps Plan for Rail published in May 2021. In it the UK Government outlined its ambitions for the future of the UK rail industry with the expertise, innovation and experience of private sector rail operators at the heart of the model. As the largest UK operator with four passenger rail contracts expected to run to at least 2023, we are well positioned to work closely with industry partners, including the DfT, to bring this to reality in the coming years.

First Rail has operated 20% of the UK passenger rail market by revenue since 2007 on average, and currently has a c.27% market share. As such, we can draw on a strong track record of delivery on major projects to enhance passenger experience, including fleet introductions, major timetable changes, capital projects on behalf of Network Rail, customer service innovations and managing the impact of significant infrastructure changes from network electrification through to route upgrades.

In addition, the rail division has potential for further growth through the skills and expertise developed in a range of related areas, such as designing and operating open access services, deploying new rail technology and customer-facing innovation and the division will also seek to build on its consultancy experience as 'shadow operator' to the HS2 infrastructure project.

In summary, First Rail's profitability will be driven by our delivery against performance targets under the new National Rail Contracts whilst we expect to add further earnings from opportunities adjacent to our core rail operations. Overall, as the UK passenger rail industry continues its evolution to a more successful railway system that works better for passengers and taxpayers, we believe that First Rail is well placed to generate more resilient and consistent returns for shareholders in tandem.



evo-rail 5G Wi-Fi gives improved connectivity and enhances customer experience



Our evo-rail next generation onboard 5G Wi-Fi technology has been developed in-house by First Rail. This pioneering system enables rapid and reliable internet connectivity on the railways. It was first trialled on the Isle of Wight, and will soon be installed on sections of both the SWR mainline and the Avanti network. It has a substantial addressable market in the UK and internationally.



Continuing operations: Greyhound (non-core)

	2021	2020
Revenue	\$422.6m	\$766.0m
Adjusted operating profit	\$(12.1)m	\$(15.3)m
Adjusted operating margin	(2.9)%	(2.0)%
Average number of employees	2,500	5,500

Market review and trends

The pandemic dramatically impacted demand for intercity bus service, with many carriers completely suspending service for several months. Greyhound continued to operate almost all of its national network at substantially reduced capacity, providing essential services to many rural areas with no other travel options. Demand is slowly returning, particularly for non-essential leisure travel. Greyhound's prior initiatives to improve onboard service and provide the only nationwide intercity bus network have positively positioned the business to meet the growing demand, with focus on our mid- to long-distance network.

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 short-distance services attract a younger, urban demographic with less interest in maintaining a private car, while mid- to long-distance services meet the needs of a variety of customers where fewer options exist.

Competitors

Intercity coach services compete with many other modes of mid- to long-distance travel across North America, including 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 demographics are responsive to innovation through technology, value-for-money offering and the environmental impact of car ownership
- Underutilised services may be part-funded by transport authorities.

Greyhound's revenue was \$422.6m or £323.0m (2020: \$766.0m or £603.2m) in the year as a result of the effects of the pandemic on passenger demand. US passenger revenues were 59% lower year-on-year, while we suspended our remaining operations in eastern Canada in May 2020 due to limited demand and the closure of the US border, and permanently shut it down in May 2021. Total revenue for the whole division decreased by 45% year-on-year.

As previously noted, during the early part of the financial year, Greyhound's overall passenger revenues were c.20% of pre-pandemic levels and passenger volumes were c.15%. Greyhound led its industry as the only major coach operator that continued to provide any service for passengers. In the US during the first quarter, Greyhound operated c.45% of its pre-pandemic timetabled mileage, sufficient to maintain the integrity of its US network and provide ongoing service to hundreds of rural communities, many with no other form of intercity transportation. Greyhound was able to do so through rapid management action including commercial initiatives, optimising pricing, managing capacity and cost (principally through reduced variable costs, furlough as well as \$60m in fixed cost reductions) to match lower demand levels, and utilising employee retention tax credits as appropriate. Greyhound also secured \$130m of the US CARES Act funding made available to state agencies to maintain operation of intercity rural bus services in the year, modestly ahead of our expectations.

Over the course of the year, Greyhound flexed operating mileage in response to volatile passenger demand in different parts of the country as the impact of the pandemic continued to be felt. Historically low airline fares have also had an impact on coach passenger demand. Since the start of the calendar year, US passenger revenue has increased through improved volumes and higher yields, reaching c.60% of pre-pandemic levels in early July 2021. Passenger mileage travelled in early July is just over half of pre-pandemic levels. As a result of these actions, Greyhound was able to largely offset the substantial reduction in revenue, recording an adjusted operating loss of \$(12.1)m or £(10.3)m (2020: \$(15.3)m or £(11.6)m) in the year. Excluding the closure costs and other losses associated with Greyhound Canada, Greyhound in the US generated \$1.8m in adjusted operating profit in the year (2020: loss of \$(14.9)m). The division reported a statutory profit of £41.6m (2020: £(253.4)m loss) after £71.1m in profit on sales of property described below partly offset by a £11.2m charge for historic insurance claims.

Greyhound continues to rationalise its property portfolio by moving operations to intermodal transport hubs or new facilities better tailored to its needs when the opportunity arises. During the year 15 surplus locations were sold, resulting in profit on certain property sales (net of leaseback, property tax and selling costs) of \$101.2m or £71.1m (2020: \$1.7m or £1.3m). The largest was the sale of Greyhound's oversized legacy garage and customer terminal facility in the downtown Arts District of Los Angeles, California to a subsidiary of Prologis, Inc. Under the agreement Greyhound received net \$88m in cash and will lease back the facility for two years, during which time Greyhound will complete the moves of its terminal and garage operations. The book value of the remaining properties in the portfolio is \$78.6m. A number of other property sales processes are underway.

In the year, Greyhound has continued to upgrade its offering for passengers, offering industry-leading streaming entertainment on all buses and new web and mobile functionality to manage bookings. In light of the demand environment, new vehicle investment has been very substantially reduced. Together with disciplined fleet management, operational and maintenance changes have resulted in further improvements to punctuality, emissions and other non-financial metrics.

Greyhound outlook

Greyhound remains non-core and FirstGroup continues to pursue all exit options for the business in order to conclude the Group's portfolio rationalisation strategy. Greyhound's financial performance will continue to be supported by tight cost control and recoveries of federal grants for operating key coach services, and is expected to exceed its FY21 contribution in light of the recent passenger volume trajectory. As set out in the announcement of the sale of First Student and First Transit, a portion of the net disposal proceeds will be utilised to de-risk Greyhound's legacy pension and self-insurance liabilities. The Group will continue to actively manage the Greyhound property portfolio for value alongside Greyhound's reduced residual liabilities. Emerging from the pandemic, Greyhound is primarily focused on our mid- to long-distance services, utilising short-distance services to support the national network. Greyhound remains focused on actively managing operating mileage in response to changing demand as the pandemic's impact on our customers' travel plans recedes.



Discontinued operations: First Student

Market review and trends

North America's c.14,000 school districts deploy around 520,000 yellow school buses and tens of thousands of smaller 'vans' to provide home-to-school transportation for millions of students. The yellow school bus market is estimated to be worth around \$26bn per annum with special education transport a further \$4bn. More than a third of the yellow bus fleet is outsourced by 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 transport is a small part), tend to be linked to the economic 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; they account for c.40% of the outsourced market. Fifteen other operators have fleets of more than 1,000 buses, 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.

First Student revenue was \$1,617.7m or £1,226.2m (2020: \$2,474.9m or £1,940.4m), a decrease of \$857.2m reflecting the near-total closure of schools due to the pandemic prior to the start of the financial year. The reduction was partially offset by recovery of a substantial proportion of our expected home-to-school revenues by agreement with our school board customers, such that by the end of the 2019/20 spring term, we were recovering c.55% of budgeted home-to-school revenues, or an effective recovery rate of 78% including labour and fuel savings.

Some schools restarted full in-person teaching at the start of the 2020/21 academic year in August/September 2020, but many continued to review and alter their back-to-school plans in light of dynamic local conditions throughout the second half of the financial year. Overall, the trend has been for increasing home-to-school services either full time or as a mixture of in-person and online teaching, although some of our school customers were able to operate all-online, principally in the larger urban districts which form a relatively significant part of our portfolio. The proportion of First Student's bus fleet operating either full service or on a hybrid basis was 87% in early June before schools in some regions began closing for the summer holidays, and between services in operation and agreements with our customers, we were securing c.95% of pre-pandemic home-to-school revenue.

At the adjusted operating level, profit decreased by only \$127.8m to \$78.1m or £55.8m (2020: \$205.9m or £158.8m), reflecting our industry-leading levels of agreements with customers noted above and the extensive cost actions we have undertaken to mitigate the reduced activity levels. These include variable cost savings, temporary salary reductions, removing all non-essential contract employees, together with some more permanent reductions in back office headcount where unavoidable. Where appropriate, First Student has also made use of the employee retention tax credits in the US (and wage subsidies in Canada) available to all businesses whose operations were disrupted by government order. All non-contracted capital expenditure was reviewed early in the pandemic and deferred, reprofiled or converted to leasing where consistent with customers' requirements. As a result of the reduced level of operating activity throughout the year for many of our customers, the division's normal seasonal build-up of working capital took place later than normal, and has not fully normalised.

	2021	2020
Revenue	\$1,617.7m	\$2,474.9m
Adjusted operating profit	\$78.1m	\$205.9m
Adjusted operating margin	4.8%	8.3%
Average number of employees	37,500	48,000

In all, c.\$110m of capital expenditure and payroll tax payments under the US Federal Insurance Contributions Act (FICA) have been deferred as a consequence of the pandemic, which will subsequently reverse under the buyers' ownership as operating conditions normalise. The division reported a statutory profit of £62.1m (2020: £89.4m) including a £10.2m benefit from an improved position on historical insurance claims.

In the bid season for the 2020/21 school year, First Student maintained its leading position in the market, supported by our excellent safety record and consistently high customer satisfaction scores, which resulted in a contract retention rate of 88% on contracts up for renewal, or 95% across the entire portfolio of multi-year contracts. Given the immense complexity of school start-up in the pandemic, our driver recruitment, retention and safety programmes have responded well to the challenges posed by the pandemic for the school bus industry and its employee dynamic, though we continue to track our employee levels closely as activity levels rebuild.

Despite the pandemic, First Student continued its bolt-on acquisition activities and driver technology innovation, as well as extending its leadership in zero emission school bus operations in North America. In January 2021, First Student announced a collaboration with NextEra Energy Resources, the world's largest generator of renewable energy from the wind and sun and a world leader in battery storage. The collaboration aims to jointly foster innovation, accelerate the mass adoption of zero emission school bus vehicles and also develop early mover capability in the nascent vehicle-to-grid power management, energy storage and ancillary grid services markets in North America.



Discontinued operations: First Transit

Market review and trends

In aggregate, transit markets are worth around \$33bn 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.\$19bn segment, of which around a fifth is outsourced), paratransit/non-emergency medical transportation (NEMT) and related services (c.\$8bn segment, around three-quarters outsourced), shuttle services (c.\$3bn segment, around two-thirds outsourced), and vehicle maintenance services (c.\$4bn segment, more than a third outsourced).

Customers

Customers contracting out fixed route and paratransit services, are typically municipal transit authorities. 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.12% of the outsourced market in North America, which accounts for c.38% of the total market. The outsourced transit market is fragmented, though First Transit has two large competitors, MV Transportation, Inc. and Transdev North America.

First Transit continued to maintain a high level of service throughout the year, as its services provide essential transportation options for passengers needing to travel to work, university, for medical and other essential travel. While passenger ridership volumes were more than 50% lower year-on-year, our clients required us to continue to maintain significant levels of service for the communities we serve throughout the year. First Transit worked closely with many clients where service levels did change to make contractual amendments such as additional payments to cover fixed costs or altered productivity requirements. Overall, First Transit's revenue was \$1,277.4m or £977.0m (2020: \$1,488.4m or £1,171.4m), a decrease of 14.2%.

While the rates of recovery in activity levels have varied by sub-segment since March 2020 and we have been flexible in both increasing and decreasing activity levels in conjunction our clients to adapt to local developments, as of June, First Transit was operating c.87% of pre-pandemic services overall (compared with c.60% at the low point). Net revenue recovery was running at c.95% of pre-pandemic expectations in June, reflecting the service levels and customer arrangements in place.

Adjusted operating profit was \$69.1m or £51.7m (2020: \$36.2m or £28.3m), or an increase of \$32.9m compared with the prior year. This equates to an adjusted operating margin of 5.4% (2020: 2.4%). This performance reflects a number of factors, including the contractual variations negotiated with customers noted above, substantial variable cost savings, including temporary furloughing of some employees and salary reductions in the year, and a reduction in fixed costs by \$10m in the year. The division also made use of fiscal tax credit programmes available to all companies to protect jobs where appropriate, and also benefited from the non-recurrence of prior year legal judgment costs (2020: \$3.5m). Statutory profit was £20.5m (2020: loss of £(21.9)m), reflecting a charge of £31.2m for the deterioration of historic insurance claims.

The division continued to drive further cost efficiencies from lean maintenance, predictive analytics, procurement, systematic employee engagement and retention programmes and further shared service efficiencies. First Transit is not as capital intensive as some of the Group's other businesses as for the most part it operates vehicles procured and owned by customers, but non-essential capital expenditure was deferred or halted in light of the pandemic.

	2021	2020
Revenue	\$1,277.4m	\$1,488.4m
Adjusted operating profit	\$69.1m	\$36.2m
Adjusted operating margin	5.4%	2.4%
Average number of employees	17,000	20,000

First Transit continues to build on its portfolio of both existing and emerging mobility services contracts, benefiting from its reputation for safe, innovative and best value solutions for clients and another improvement in its already strong customer service scores, which reached a five-year high in 2021. These included particularly strong responses from clients in the categories of working with them during the pandemic, technology adding value, safety and quality of service for passengers. The contract retention rate on 'at risk' business in the year was stable at 89% (2020: 89%), and included retention of five important multi-year contracts with long-term clients (Houston, Texas, Met Council, Minnesota, Hartford, Connecticut, New Jersey Transit and City of Pasadena, California).

Despite extended bidding cycles due to the pandemic, First Transit secured new business wins in its traditional sectors such as MARTA in Atlanta, Georgia in H1 and Pinellas Suncoast Transit Authority, Florida and Access Services in Los Angeles, California in H2. In emerging mobility services, First Transit has extended its partnership with Lyft to provide wheelchair accessible vehicles to several US cities in the year, as well as operation of bikeshare services in Portland, Oregon.

The business has also continued to build on its strong position in the maintenance and operation of autonomous vehicles (AV), electric vehicles (EV), and in January 2021 announced plans to collaborate with NextEra Energy Resources to target the rapid growth of EV capabilities in its markets.

Overall, First Transit is well placed for further growth, not least in light of the Biden administration's plans for further investment in infrastructure and public transportation.