Divisional Review

North America

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Revenue (+8% against 2021) **$1,296.8m**	**Revenue** (+20% against 2021) **£1,048.2m**
Underlying Operating Profit (-17% against 2021) **$84.7m**	**Underlying Operating Profit** (-8% against 2021) **£68.4m**
Statutory Operating Profit (-75% against 2021) **$15.8m**	**Statutory Operating Profit** (-73% against 2021) **£12.7m**
Underlying Operating Margin (-190bps against 2021) **6.5%**	

Our business in North America focuses on two distinct areas of activity under separate management teams: student transportation (School Bus) and Transit & Shuttle services. We operate in 34 states and three Canadian provinces.

The School Bus business operates through medium-term contracts awarded by local school boards to provide safe and reliable transport for students.

Our Transit & Shuttle business operates in a number of core distinct sectors across the USA. In Transit, our primary focus is on paratransit. Meanwhile, our Shuttle business, operating largely through WeDriveU, offers corporate employee shuttle services to technology, biotech and manufacturing clients, and is also growing in the universities shuttle market.

Overview

Overall, North America revenue increased by 8.3% to $1,296.8m, with growth in both our School Bus and combined Transit & Shuttle operations. However, Underlying Operating Profit declined to $84.7m with an Underlying Operating Margin of 6.5% reflecting the impact of driver shortages, investment in driver wages and route reinstatement delays. After separately disclosed items, statutory operating profit was $15.8m (2021: $63.8m). The increase in separately disclosed items relates to onerous contract provisions and impairments directly attributable to the post-covid market wide issue of driver shortages.

Revenue growth and service recovery

Our School Bus operations delivered an 8% revenue improvement versus the prior year, as schools returned to full in-school learning. Industry-wide labour issues, with high levels of wage inflation and driver shortages continued to act as a brake on our growth.

We ended FY 2022 having added over 900 net new drivers (compared to the end of the prior school year 2021/22), through enhanced recruitment processes, wage investment and focus on retention, which enabled us to close the driver gap by one-third. Route retention also progressed well, with about one-quarter of routes now reinstated.

As we have added drivers we have:

- released managers and other admin staff from driving roles so that they can focus on recruitment, training and deployment, route reinstatement and running our operations more effectively;
- undoubled routes. Doubled routes are those where, through necessity, one driver covers two combined routes and students experience much longer journeys to and from school. Our customers are keen to ensure that we return to single routes (undoubling) before we reinstate missing routes. Addressing this issue does not add to route count but is beneficial to revenue and profit (as doubled routes are not often paid at 100%) and it ensures we are satisfying our customers' priority needs leading to better contract retention and ability to seek price increases.
- reinstating routes we have been unable to run. This requires discussion with and agreement from our customers and as a result there is a timing lag between drivers being added and routes being reinstated. As the current school year progresses there is a risk that customers will be less inclined to reinstate routes for short periods of the remaining academic year and so we anticipate the next opportunity to significantly add routes will come with the beginning of school year 2023/2024 in September 2023.

Progress was also made in respect of recovery of the driver wage investment. Of the 40% of the portfolio that was renewed in the year we achieved rate increases of 10.3% (7.1% across the portfolio) compared to total wage increases of 10.1%.

In Shuttle (2022 revenue +21% versus 2021), we have seen the benefit of the majority of customers returning to their workplaces, which drove demand for our services. There was a 96% increase in service levels in 2022 vs 2021 noting that customers had continued to pay through 2021 regardless of service levels. We continued to diversify our activities away from technology-focused corporate customers towards a more balanced portfolio including biotechnology, education, and manufacturing: each of which has different drivers of demand in the end-markets we serve.

In Transit 2022 revenue was broadly flat on prior year. We saw a progressive improvement in service volumes, as well as the full-year impact of the actions we have previously undertaken to exit loss-making contracts.

The reduction in North America underlying operating profit largely came in School Bus, where wage inflation and route reinstatement delay were the main factors. As referenced above, the price recovery of wage inflation was successfully renegotiated on 40% of our contracts. In addition, we negotiated unprecedented out-of-cycle wage increases with a number of customers given the exceptional inflationary environment.

While our Transit & Shuttle operations have not been immune from underlying wage inflation and driver availability, the full-time nature of employment means that we do not compete against other pools of more casual or seasonal labour and were therefore less impacted than School Bus. We brought Transit & Shuttle under one management team creating benefits including a single Business Development and Customer Insights team that is capable of converting the significant opportunities in this sector.

We were awarded 21 new contracts during the year, worth over $100m over their base terms. Key wins included the Greater Richmond Transit Company, Alexandria Real Estate in Boston and Washington University in St Louis.

Progressing Evolve

Building on a strong performance in the prior year, we were pleased to record our best ever year for safety in North America in 2022 - in particular a further 16%

North America continued

reduction in speeding events - with the Driver Safety Scorecard continuing to be an important part of our overall safety programme. In those Customer Service Centres ("CSCs") in Canada where we received customer approval to do so we have installed driver safety cameras in over 80% of our vehicles and will complete the remaining installations in 2023. We have also made more use of technology to track both training and driving evaluation results in order to drive further improvements in safety.

We made continued progress with our aim to be the most reliable with operational transformation of School Bus in 2022, driven by the accelerated roll out of our digital operating platform. This has now been rolled out to 110 of our CSCs and has enabled us to automate and optimise wage control process. In addition, we deployed OPERATE, with over 350 of our leaders now trained, and the utilisation of this framework has delivered improvements in our approach to managing driver costs, routing efficiencies and the driver recruitment process. We have also seen further operational improvement in our School Bus business, with our excellent rate of preventable maintenance compliance indicative of the significant progress we have made over the last four years, particularly in terms of reducing cost per mile – and we opened our sixth parts reclamation centre during the year to safely dispose of redundant buses and reuse valuable parts.

During the year, we made further progress with our ambition to be the environmental leader. Working with our customers to access the Zero Emission Transit Fund in Canada and the Clean School Bus Program in the US, we added further ZEVs to our fleet. In addition, we successfully secured $30m in funding for 77 electric school buses and infrastructure to be deployed in the year ahead and will continue to pursue further funding in pursuit of our goal of 150 electric buses in 2023. Supporting our environmental targets, we continued to develop key partnerships with vehicle OEMs on technology integration relating to battery and charge management, route analytics for optimal efficiency, life cycle management and appropriate vehicle battery sizing, as well as address shortcomings such as range and ancillary loads.

We won Transportation Demand Management ('TDM') Excellence Award from the Association for Commuter Transportation with a number of our Shuttle customer programs being recognised with 'Best Workplace for Commuters' and 'Best Universities for Commuters' awards in 2022. This demonstrates our ability to win contracts based on our success to deliver outstanding customer service. We are also making further improvements to our customer service, using our digital customer management platform across our School Bus and Transit & Shuttle businesses to drive further efficiencies, from relationship mapping and account plans to automated customer surveys. Our BusZone app, introduced in Q4 2022, enables parents to track their child's school bus and receive real time updates. Although still in the early pilot stages, we look forward to bringing this app to more parents across additional locations in the future.

Consistent with our commitment to being an employer of choice, we are encouraged that the various employee initiatives we have implemented have contributed to a strong improvement in driver retention rates to circa 80%, a 500-basis point improvement versus 2021 and well above the average since 2015. We also saw a very positive response to our driver recruitment strategy to reach active job seekers, which was supported by targeted resource to focus on high volume sourcing in priority markets and locations.

Looking forward

Although we have made significant improvements to our underlying process in 2022, driver shortages and route recovery in our School Bus business remain the key factors in determining the pace of revenue and recovery in the short term. We expect the gap between driver additions and route additions to close over the remainder of this school year and into the next one. As the remainder of our contracts come up for renewal over the next two school years, we expect to see further improvement in the recovery of driver wage.

We have a strong pipeline of bidding opportunities over the next 18 months, worth circa $700m predominantly in the asset-light Transit & Shuttle businesses. In addition, we continue to see expansion bid opportunities in markets where we have existing Transit & Shuttle infrastructure, such as Los Angeles, Austin and Boston.

Our Shuttle business is well positioned to work with fast-growing corporations, who are seeking to attract the best talent and are providing private transport where public services do not exist or are not practical (due to restrictions on parking or high levels of congestion). We can share drivers, vehicles, maintenance staff and administrative costs in locations we own in our business, to capitalise on future opportunities, by maximising efficiencies and synergies. We have already successfully implemented this in Transit & Shuttle locations in Boston and Chicago.

Having restructured and combined our Transit & Shuttle activities in 2022 to bring them under a single management team, we see potential for future synergies; these include operating from combined depots and leveraging our digital customer management platform to identify opportunities across our combined customer base, as well as adopting common processes to drive key strategic outcomes (such as on-time performance and recruitment/retention).

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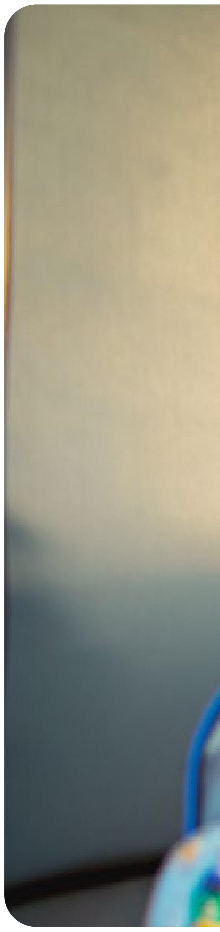

Case Study

Transforming our recruitment processes

Our strategic priorities in action

Our School Bus operations have faced significant challenges in the face of the industry-wide shortage of drivers in the US. In response to these challenges, we developed a multi-pronged strategy to expand our reach to active job seekers, with a series of new recruitment measures introduced across each of our Customer Service Centers (CSCs), in order to rapidly recruit new drivers.

These actions included: building on our support model by adding centralised recruiters to our School Bus HR team; increasing investment in online recruitment, with job postings on all the leading online recruitment websites; raising our brand awareness with third party recruitment agencies through new, company-sponsored content, branding and targeted advertisements; and improving our company website career page and also with Glassdoor.

As a result of these additional measures we have seen a 30% increase in driver applications over the prior year which is enabling us to address the driver shortages being experienced across the US.

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