

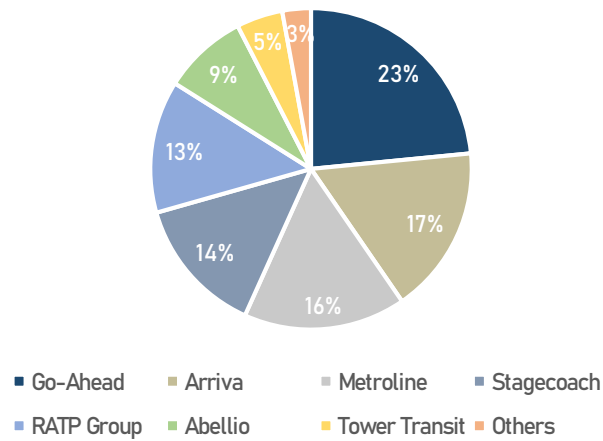
## Go-Ahead Group: The return of public transportation

<b>Company:</b>	Go-Ahead Group (GOG LN)	<b>Market Cap:</b>	£430mio
<b>Industry:</b>	Transportation	<b>Net Debt:</b>	£217mio (£400mio incl. net payables, provisions)
<b>Country:</b>	UK, worldwide	<b>Revenue:</b>	£3.6bn
<b>Date:</b>	4 <sup>th</sup> May 2022	<b>Net Income:</b>	£60mio (1.6%)
<b>Dividend:</b>	5%	<b>Free Cash Flow:</b>	£100mio (2.7%)
<b>Entry:</b>	£400mio	<b>Target Market Cap:</b>	£600mio

### Introduction

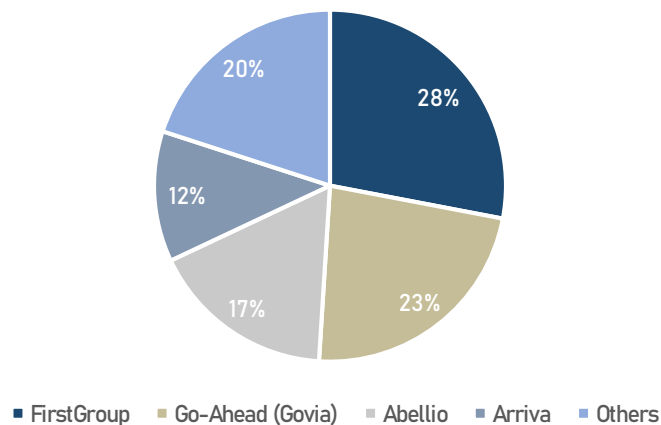
The Go-Ahead Group is the UK's largest public transportation group and is active in four sectors, namely London Bus/International Bus, Regional Bus, UK Rail and International Rail. The key to understand this business is understanding how the contracts are structured. The London/International Bus segment is based on how many miles the specific bus lane travels and the bidder with the best combination of lowest charge per mile and the best incentives (such as punctuality) as well as qualitative attributes wins the contract. Go-Ahead Group operates around 23% of London's bus lanes and has two key competitive advantages, namely the location of the bus depots, which decreases their cost base, and the understanding of how to operate in dense cities, which increases their incentive returns. Generally, the Regional Bus and London/International Bus generates around 80% of the firm's operating profits and UK Rail and International Rail the remainder. However, as the Rail contracts were based on passenger numbers which fell amidst the pandemic, the proportion of operating profit for the bus business climbed to 87% compared to pre-pandemic times. The bus operation is more profitable, as it involves capital expenditures since Go-Ahead needs to buy (or lease) the buses themselves and has ownership of the bus depots (they generally buy 50%, lease 50%), whereas the railway operation is a franchise business, where Go-Ahead leases the trains, pays for track access and rent all the property, manages the stations (and therefore does not have capital expenditures and is also not responsible for traction electricity, hence faces fewer commodity price related risks). The leases are always aligned with the length of the contract.

### London Bus Market Share by Company



Source: Go-Ahead Group, individual companies

### UK Rail Market Share by Company



Source: Go-Ahead Group, individual companies

Division	H1 22 Operating Profit (in £mio)
Regional Bus	£11.7
London & International Bus	£25.7
<b>Total Bus</b>	<b>£37.4</b>
UK Rail	£10.8
International Rail	-£5.6
<b>Total Rail</b>	<b>£5.2</b>
<b>Total</b>	<b>£42.6</b>

Source: Go-Ahead Group

### How did Go-Ahead lose 40% market cap in one year?

In May 2021, CEO David Brown announced to retire when the company was worth around £560mio. Shortly afterwards in the summer of 2021, the accounts for the full year were delayed amidst a historic calculation of the London Southeastern Railway (LSER) profit share with the Department for Transport (DfT) over a number of years. The DfT then appointed an Operator of Last Resort (OLR) to take over the LSER contract from Go-Ahead and results were further delayed subsequently, leading to the suspension of shares from the London Stock Exchange. However, this matter was resolved in February/March 2022 with the publication of the results, a financial penalty of £23.5mio with regards to the LSER profit share dispute and Go-Ahead not being re-appointed to the LSER contract, impacting their revenues by around £800mio and operating profit of £5-10mio on a pre-pandemic basis. In addition, the International Rail segment continues to struggle, as different to the UK, the contracts were not renegotiated to reduce the burden on lower passenger numbers.

### What's ahead for Go-Ahead

The new CEO, Christian Schreyer, has been a strong choice due to his former experience at the larger Transdev group, where he served as CEO for North and Central Europe. The strategy is to digitize the business to make it more efficient and expand internationally. The loss-making international rail contracts in Norway and Germany are set to be renegotiated to reduce the loss to zero. Whereas in the bus business expansion goes ahead fast. In March, Go-Ahead bought Swedish regional bus business Flexbuss Sverige AB, a new bus depot in East London was bought to win upcoming bus tenders and the French government is looking to change the Paris public bus model (currently run entirely by RATP) to potentially adopting the London model, which would enable Go-Ahead another large growing market in a city that is similar to London. In addition, the goal to reach net zero will be accelerated. While a combustion engine bus costs around £150-170k, a full electric bus costs nearly double at £280-300k. However, the financing arrangements are generally more attractive and can be done off-balance sheet. Depreciation is also lower and the energy is being agreed via long term Power Purchasing Agreements (PPA), which are relatively attractive and more stable. This will likely help in winning new contracts with Transport for London (TfL) as well. These electric buses leasing agreements tend to be cheaper than to buy combustion engine buses according to Christian Schreyer. Last but not least, a 50 pence a share dividend was announced (5%) and capital expenditures of only £45mio this year (although capex will increase to £90-100mio next year). This

should provide good incentives to get shareholders back onboard. With people returning to offices and international travel staging a comeback (London bus ridership at 80% of pre-pandemic levels), Go-Ahead is well positioned to benefit – even in a stagflationary environment.

#### Go-Ahead Group Financials

Year	Revenue	Net income	Cash	Debt	Net receivables	Net current assets	Leases	Provisions	Equity	Operating cash flow	Investing cash flow	Financing cash flow	Net cash flow
2014	2,702	78	282	320	-300	-90	-	110	67	172	-64	-75	33
2015	3,215	59	604	310	-510	1	-	110	83	411	-9	-79	323
2016	3,361	118	636	312	-536	59	-	106	195	212	-104	-77	31
2017	3,481	112	590	359	-504	-156	-	102	227	144	-154	-37	-47
2018	3,462	109	557	400	-461	74	-	103	319	162	-160	-36	-34
2019	3,807	89	631	410	-492	100	-	115	345	224	-88	-62	74
2020	3,897	37	570	416	-485	-466	648	179	191	465	-83	-443	-61
2021	4,059	63	631	646	-470	-250	313	275	154	677	-38	-577	62
H1 2022	1,797	31	389	351	-210	-12	125	244	206	8	3	-253	-242

Source: Go-Ahead Group



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