

North America exit nets Stagecoach \$271m

Martin Griffiths says sale of group's last remaining international business will allow it to focus on 'significant opportunities for growth in the UK'

OVERSEAS

▶ Stagecoach has agreed to sell its North American division to Variant Equity Advisors, disposing of its last remaining international business. Announcing the \$271.4m deal, Stagecoach chief executive Martin Griffiths said the move would allow the company to focus on "significant opportunities for growth in the UK where public transport has good prospects as the clear solution to the challenges of increasing road congestion and poor air quality".

By contrast, coaching operations in the US faced growing pressures. In December Stagecoach announced an £85m writedown in the value of its North American division due to "the increasingly competitive market environment, and the

associated financial impact ... on long-term profitability".

On Stagecoach's core US coach routes covering north eastern states, competition has increased significantly over the past year following the end of an alliance between FirstGroup's Greyhound business and regional operator Peter Pan. Further large competitors in the north eastern region include 'Chinatown operators'.

In addition, heavy new

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competition is expected to emerge from companies entering the coaching market on the back of mobility management, retailing and marketing technology. They include pan-European operator Flixbus, which bought the retailing element of Stagecoach's European Megabus business in 2016. Venture also fits into that category. Founded in 2017, its portfolio includes the Curb mobility management platform.

David Leeder, managing partner of consultancy TIL and formerly a main board director of FirstGroup, told *Passenger Transport* that attempting to compete against the new entrants would amount to "throwing good money after bad". He pointed out that because investors value these businesses as technology

companies with potential for high growth, they have significantly greater funding available to them to develop routes and sustain a 'coach war' than Stagecoach.

At the same time, he said Stagecoach's motivation for the sale may have included the need to invest heavily in UK bus networks and partnerships with cities to revive patronage. TIL's analysis has shown that where city mayors agree to implement bus priority measures to achieve wider economic and health policy aims, the investment companies will need to make to capitalise is of "an order of magnitude greater" than many may have assumed.

"The question is do the owners of the bus companies have the desire and ability to do that," he added. "The work we have done shows it's quite surprising how much capital you would need to invest to get an exciting level of growth. It may be that [Stagecoach chairman] Brian Souter has been running the same type of analysis. He's highly perceptive, got a big brain and now he has deeper pockets than a few weeks ago." ■

TIMELINE: PURCHASE, WRITEDOWN, INNOVATION AND SALE

JUNE 1999: Stagecoach pays £1.2bn for Coach USA, giving it 75 businesses in 33 states and two Canadian provinces. The portfolio includes a fleet of 6,500 coaches, 3,000 taxis and smaller transit and school bus operations. Chairman Brian Souter referred to acquiring another Stagecoach in America. The deal was said to have been agreed on "gut instinct" in a brief meeting between Souter and Coach USA chairman Larry King. The company immediately embarked on an expansion plan, buying up small local add-on businesses.

JUNE 2001: Stagecoach writes down the value of the business by £376m, after spiralling costs and a downturn in the US economy reduce profitability by a third.

DECEMBER 2002: Stagecoach writes off another £575m, citing the impact of the September 2001 terrorist attacks, leaving Coach USA valued at just £376m. Souter announces that over half the Coach USA businesses will be sold. Stagecoach shares had fallen as low as 10p, having been worth 260p at the time of the acquisition.

2003: Retrenchment to 10 states and two Canadian provinces, focusing primarily on coach services in the prosperous, well-populated north eastern states. Throughout the rest of the country businesses were either sold or closed, with the taxi and transit market exited. Sale of companies in the rest of the country raised £170m. By the time the restructure was complete the fleet size had shrunk to 2,800 vehicles.

2006: Launch of Megabus services in North America offering the first fares from as low as \$1.

2010: Souter says opportunities for expanding the Megabus network in North America are more exciting than in any Stagecoach business since the take-off of Stagecoach Express in the early 1980s.

2011: Stagecoach sells its school bus business for £31.5m, exiting the school bus market which had not expanded out of Wisconsin since the purchase of Coach USA.

2018: Stagecoach announces £85m write down of US division and that it is in sale negotiations.