

FIRSTGROUP PLC

STRATEGY UPDATE

- FirstGroup today announces plans to rationalise our portfolio with the Group's future emphasis on First Student and First Transit, our core North American contracting businesses, which have the greatest potential to generate sustainable value and growth over time
- Accordingly, a process to sell Greyhound has commenced and we are pursuing structural alternatives to separate our First Bus operations from the Group
- We have an existing portfolio of rail franchises in the UK which we will operate in accordance with their terms
- We will secure best value for shareholders by executing these plans with pace, having regard for the regulatory procedures and stakeholder consultations, including pensions, that will be required

Portfolio rationalisation plans

FirstGroup has a portfolio of five market leading public transportation businesses in the UK and North America. The Board regularly reviews all appropriate means to mobilise the considerable value inherent in the Group, recognising that there are certain constraints and friction costs to overcome in the case of some potential options, and will continue to do so. In light of the performance improvements we have achieved through our divisional strategies, and the changes in the wider environment, we believe that the most appropriate means to deliver enhanced sustainable value is through the rationalisation of the portfolio being announced today.

Our North American contract businesses

In future our core market will be North America, and centred on First Student and First Transit, our market leading contract-based businesses, which together generated 60% of the Group's operating profits in 2019. They share increasingly similar attributes and opportunities to grow and create value, and between them we have established a strong and profitable platform in North American mobility services.

We have improved First Student's margins substantially to 9.5% in 2019 through a combination of our rigorous returns-based contract bidding strategy and sustained cost and process efficiencies. We are confident that our largest business is now restored to a position of generating sustainable growth, cash and returns from its multi-year contract portfolio, which remains by far the largest in the North American home-to-school bus market. Looking ahead, First Student is targeting development of complementary transportation and mobility technologies and services, entry into adjacent markets as well as organic and M&A-led growth in the home-to-school market.

First Transit has delivered long term growth as North American transit markets continue to outsource, and has built a diversified transit management contract portfolio that generates attractive returns and cash flow given the relatively modest capital requirements. We are targeting further long term growth from First Transit's core markets, particularly in shuttle and in vehicle services, and have already established our credentials in a number of attractive adjacent markets – such as commuter rail and bus rapid transit (BRT). First Transit is at the front end of the Group in capturing opportunities in Mobility as a Service (MaaS) and Shared Autonomous Vehicles (SAV). Our business is in a strong position to generate value as transit management markets continue to evolve, as we leverage our partnerships with ridesharing and other Transportation Network Companies to remain at the forefront of innovation.

First Student and First Transit are increasingly overlapping in terms of the technologies and management skillsets required to thrive in response to the market opportunities in front of them. As we drive our core contracting businesses forward we will ensure that our management and functional structures are positioned to capitalise further on the platform we have built in the emerging North American mobility services market.

Separation plans

First Bus is one of the largest operators in the UK with a fifth of the market outside of London. We have improved our offering by investing in our fleet and transforming our networks, payments systems and passenger information services to improve simplicity and convenience for customers. We have significantly improved cost efficiency in the division, through investment in operations and maintenance systems and by rationalising our footprint via network changes, depot sales and closures. As a result, First Bus margins have improved to 7.5% in 2019 and it is now on a much stronger footing as a business. First Bus has limited synergies with our other operations and, having set the business on the path to increased profitability, we believe now is the right time to pursue structural alternatives to continue this progression and deliver value to shareholders while managing the division's longer term liabilities.

Greyhound is the only operator of scheduled intercity coaches in North America, with a unique nationwide network and an iconic brand. We have invested in Greyhound to implement airline-style yield management and real-time pricing, up-to-date booking and ticketing options and improved customer communications channels. We have also reduced Greyhound's footprint in Western Canada and continue to release value by optimising its property portfolio. Greyhound has limited synergies with our other, predominantly contract-based, North American businesses and we believe that value for shareholders can best be delivered by seeking new owners that will further support the continued development of this business. As such a formal sale process for Greyhound is underway.

As part of our portfolio rationalisation plans to separate Greyhound and First Bus from the Group, we will evaluate our capital structure and capital allocation policy as

we move forwards, to ensure it is optimal for supporting future growth and shareholder returns while still maintaining an appropriate balance sheet.

First Rail

We have a portfolio of separately managed rail franchise businesses in the UK which we will operate in accordance with their contractual terms. First Rail's goal remains to add value through our operational expertise and strong industry relationships. Our UK rail franchise portfolio has generated £330.9m in adjusted profit with net cash and dividends to the Group over the last five years. However, given our reduced expectations for our two most recently awarded franchises, we have concerns with the current balance of risk and reward being offered. We await the outcome of the UK government's review into the structure of the whole rail industry chaired by Keith Williams as it seeks to address these and other industry issues. Any future commitments to UK rail will need to have an appropriate balance of potential risks and rewards for our shareholders.

Commenting, Chief Executive Matthew Gregory said:

"Since becoming Chief Executive in November 2018, I have been focused on setting the Group on a clear path to enhance value. By executing the portfolio rationalisation plans we are announcing today, our future emphasis will be on First Student and First Transit, our core contracting businesses in North America. We see significant potential to generate long term, sustainable value and growth from the solid platforms these businesses provide in the North American mobility services sector. We are intent on executing this strategy at pace, having full regard to the regulatory and stakeholder procedures and approvals that will be required.

"In parallel with our portfolio rationalisation plans we will continue to drive forward the clear strategies now established in each of our divisions to ensure they deliver further progress and growth in existing and adjacent markets, underpinned by our plans to enhance our cost base further.

"Our plans will create a more focused portfolio, with leading positions in our core North American contracting markets, and is the most appropriate means for us to deliver enhanced sustainable value for all our stakeholders."