

Intention to Requisition An EGM

Coast Capital Seeks A De-Merger of the North American Businesses Which Will Create Immediate Value for Shareholders

Coast Capital, which holds more than 10% of the shares in FirstGroup Plc, has long advocated for the separation of the North American operations, namely First Student and First Transit, from the UK operations, thus ensuring the release of full value to investors, and the sound development of businesses with no synergies between them.

Since the announced ‘strategic review’ of the North American operations three months ago, shareholders have heard nothing from the company or its board, and the share price has declined by 20%.

Unless the board announces a separation, Coast Capital intends to requisition an EGM in order to provide investors with the opportunity to vote on an immediate de-merger of the North American operations. Coast Capital believes that in the absence of a full divestment notably above book value, the company must pursue a listing of these businesses on a North American exchange and the LSE. This will allow UK investors to realize value from their investment in the company, and enable new North American investors, public or private, to buy into the North American operations. Furthermore, the management teams, employees, and clients of North American operations can only benefit from a reinvigorated investor base which will invest in and help grow the operations.

Given National Express’ record performance in North America, Coast Capital estimates that the North American businesses will generate \$580 million or £450 million in EBITDA this fiscal year (March year-end), which at book value (£2.8bn) would equate to a valuation of 6.2x EV/EBITDA. We also note that the only comparable North American listed peer, Student Transportation Inc. (‘STA’) was on average valued by public investors at 8x EBITDA before going private at 12.6x EBITDA. For reference, our business is the clear market leader with comparable margins to STA, and notably higher margin improvement and growth potential. It also enjoys important revenue visibility through long-term municipal contracts, and a compelling cashflow profile which has been masked by years of over-investment in capex. Coast Capital therefore believes that the Student Transport and Transit operations are worth notably more than book value of 100p per share – indeed, at a peer group valuation of 8x EBITDA, these operations alone are worth 165p per share.

Furthermore, Coast Capital will also seek for the company to issue share warrants for the proforma de-merged North American business, prior to a formal separation or a sale. These warrants would be immediately tradable to US investors, who want exposure to the North America businesses, and will likely pay a much higher premium for the North American warrants/shares, than the current share price of the entire company (including UK).

	Book Value	STA Multiple	2024 Proforma	
	Book Value	STA Multiple	Book Value	STA Multiple
EBITDA	\$580m	\$580m	\$775m	\$775m
EBITDA Multiple	6.2x	8.0x	6.2x	8.0x
NA Business Warrant / Share Value	100p	165p	201p	289p

North American business excluding Greyhound

While Coast Capital seeks an immediate separation of the businesses and a separate listing of the North American operations on the NYSE or TSE, it welcomes the interest of prospective private investors who plan to invest in, and help grow, the company's valuable transportation operations in North America and the UK.

The remaining UK operations with no debt and net of pensions, valued on a similar multiple with peers is worth 50p – 60p per share. For instance, the rail business has minimal positive value which is calculated as the summation of free cash flow over these contracts. However, UK bus peers are valued between 10x-12x EBITA (£650m - £780m), less pension obligations plus real estate. FirstGroup owns c.£300m in real estate across the UK. Coast Capital believes that these operations are well placed to participate in industry consolidation, and that shareholders would benefit from inevitable synergies and continued margin improvement from First Bus. We note there is already significant shareholder overlap across UK peers.

If Coast Capital's proposed resolutions are approved by shareholders, Coast Capital would propose to inject approximately £200 million into the company, in exchange for shares in North American operations at book value, and in order to enable a share buyback at a premium the prevailing market price. Alternatively, Coast Capital may look to allocate this capital directly via a tender for 10% of the company at 130p per share.

Finally, we believe it is also worth highlighting that the company is currently sitting on more than £500 million of liquidity which should allow the company to weather any operational volatility and to potentially take advantage of a depressed share price through buybacks. We note the company has passed a shareholder resolution allowing the company to purchase up to 10% of the stock by October 24th, 2020. We believe such action should be seriously considered given the notable discount to book value at which the stock trades (0.83x – book value as of September 2019 is 118p), and in light of looming steps to release value back to investors.

"Anytime you can buy stock for less than it's worth, it's advantageous to the continuing shareholders ... but it should be by a demonstrable margin."

"When stock can be bought below a business's value it is probably the best use of cash."

"Many management are just deciding they're gonna buy X billions over X months. That's no way to buy things. You buy when selling for less than they are worth. ... It's not a complicated equation to figure out whether it is beneficial or not to repurchase shares."

- **Warren Buffett**

Additional Consideration

North American Potential

Coast Capital has identified a first-class management team for the student bus operations which has run similar businesses with outstanding performance and have achieved superior returns for shareholders. This management team along with a leading turnaround consultancy firm, have spent the past year analyzing FGP's Student bus operations and concluded that the North American stand-alone can achieve the following:

- Year-on-Year Revenue growth of over 4%
- Year-on-Year EBITDA(R) growth of 7.5%
- 6% dividend yield
- Debt/EBITDA reduction from 3.6x to 2.3x within 5 years



Cash Flow (\$ in millions)	FY20E	FY21E	FY22E	FY23E	FY24E
EBITDAR	583	626	681	726	774
Lease Expense	0	(14)	(30)	(48)	(67)
EBITDA	583	611	650	678	706
Interest	(100)	(96)	(96)	(75)	(60)
Cash taxes	(54)	(59)	(66)	(75)	(83)
Cash from Operations	\$ 419	\$ 446	\$ 478	\$ 517	\$ 552
Net Capex (Leasing Model)	(233)	(159)	(173)	(188)	(204)
Cash from Investments	\$ (233)	\$ (159)	\$ (173)	\$ (188)	\$ (204)
Debt Issued			228	211	
Debt Repaid			(468)	(423)	
Cash from Financing	\$ -	\$ -	\$ (241)	\$ (211)	\$ -
Change in Cash	\$ 186	\$ 287	\$ 64	\$ 117	\$ 348
2020 Assumed to FGP	(186)				
Dividends 6% on \$1.5bn MC (Book Value)	0	(92)	(92)	(92)	(92)
ENDING CASH	\$ 0	\$ 195	\$ 168	\$ 193	\$ 449

Balance Sheet Highlights (USD Eq)	FY20E	FY21E	FY22E	FY23E	FY24E
Debt					
RCF	\$ 581	\$ 581	\$ 581	\$ 581	\$ 581
Capital Leases	78	78	78	78	78
8.750% Bond - 21	455	455			
5.250% Bond - 22	423	423	423		
6.875% Bond - 24	260	260	260	260	260
Loan Notes - 22	13	13			
Senior Unsecured Loan Notes (\$275) - 25	273	273	273	273	273
NEW ISSUANCE: ~5.00% Bond - 27 (issued in 22)			228	228	228
NEW ISSUANCE: ~5.00% Bond - 28 (issued in 23)				211	211
Gross Debt	\$ 2,083	\$ 2,083	\$ 1,842	\$ 1,631	\$ 1,631
Operating Leases	-	70	136	195	248
Debt/EBITDA	3.6x	3.4x	2.8x	2.4x	2.3x

Spin-off of North American Operations

A dual listing structure allows existing UK investors to retain shares of an LSE listed company, while also providing North American investors access to the largest pureplay North American student and transit operations. We believe there will be significant demand from US/Canadian investors for the shares of the leading provider of North American student transportation and transit operations -in light of the long term contracts (upwards of four years), high rates of contract renewals, and attractive margins and return on capital. To simply highlight the point, please note the following: According to Capital IQ, Student Transportation Inc.'s top 15 shareholders consisted of nearly all US & Canadian investors and held less than 35% of the company. In comparison, FirstGroup's top 15 shareholders hold nearly 80% of the company and aside from Coast Capital are all UK and ETF based shareholders. A major benefit to this proposal would be the added liquidity to all shareholders.

For further information, please contact Coast Capital
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