COAST CAPITAL

May 19, 2021

Coast Capital Addresses Misleading Claims by FGP Vis-a-Vis the Destructive Planned Disposal of Crown Jewel Assets

Coast Capital notes the statement by FirstGroup PLC dated May 18th, and herein seeks to clarify several misleading claims made by the company, and to again ask shareholders to vote against this proposal unless the upfront offer is meaningfully improved, and the board commits more proceeds to shareholders:

A. On the claimed 8.9x EV/EBITDA multiple

The middle of a pandemic - when schools were indefinitely shut, uncertainty surrounding COVID was at its height - presented a very inadequate time for the board to sell the largest school bus & transit operations in North America. The Chairman of the company assured Coast Capital that the backdrop was not a concern, and that he would be successful in disposing of these operations at more than 8x normalized EBITDA. In fact, the EQT bid valued our crown jewel assets at just 6.5x. EBITDA. Coast Capital further notes that FirstGroup itself acquired these market leading operations for 8.8x EBITDA nearly 15 years ago (adjusting for Greyhound valuation).[1] In exchange for just £2,190mn net proceeds, shareholders are surrendering up to 15% cash flow yields to EQT.

	GBP mn
Headline EV	**3,255**
(-) Possible Earn-Outs (First Transit)	(172)
Actual Headline EV	**3,083**
(-) Deferred Capex / Taxes	(79)
(-) NWC Leakage / Pensions	(107)
(-) Transaction Costs and Other	(100)
Pre-IFRS 16	**2,798**
(+) IFRS 16 Lease Liabilities	142
True Transaction EV[2]	**2,940**
(-) Self-Insurance Provisions	(389)
(-) Student + Transit Financial Debt	(218)
(-) IFRS 16 Lease Liabilities Transferred to Buyer	(142)
Net Proceeds to FGP	**2,190**
FYMar'20 EBITDA	450
EV / EBITDA[3]	**6.5x**

[1] Pro forma EV/EBITDA paid by FirstGroup for FSFT in 2007 calculated as ~7.8x EV/EBITDA paid for Laidlaw International less 6.0x EV/EBITDA multiple applied to Greyhound segment (Greyhound represented 40% of Laidlaw International at the time); implied FSFT multiple of 8.8x EV/EBITDA

[2] On a like-for-like basis with comparable precedent transactions and public comps, including lease liabilities

[3] GBP proceeds against March 2020 EBITDA as shown in the Circular multiple times

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B. The board is proposing to sell FSFT for less than book value

The board wrongly includes the earn-out (not guaranteed) in net proceeds to conclude that the price paid is higher than book value. As per the Company, net proceeds are £2,190mn vs a September 2020 net asset value of £2,512mn. Coast Capital again notes that no company in the UK has, over the past two years, recommended that investors accept a sale of any part of their company at a discount to book value (the average transaction having transpired at 3.5x Price to Book Value).[4]

First Student & First Transit	GBP mn
Net Assets as of March 2020[5]	2,938
Net Assets as of September 2020[6]	2,512
Net Proceeds to FGP[7]	**2,190**
Price / Book Value	**0.87x**

C. Shareholder unfriendly "No-Shop" entered into by the board before all options for maximising value have been thoroughly and exhaustively explored

Coast Capital only discovered that the company had entered an unusually punitive 'No-Shop' agreement with EQT when contacted by representatives of prospective buyers who had not been approached by FGP or its advisors, and whose interest was ignored by the board. This clause would not be allowed if FSFT represented 100% of value, and is frowned upon at 75%, yet this board has entered the most restricted terms for a business which makes up nearly 85% of company value.

D. Lack of fairness opinion

Coast Capital is surprised to learn that a nearly $5bn (headlined value) transaction, which constitutes nearly 85% of operating income for shareholders, lacks a fairness opinion despite a rush timeline to vote.

E. Failure to explore US listing or other immediate value unlocking alternatives

Coast Capital notes that the board has failed to fully engage with many dozens of SPAC buyers, which have accounted for a majority of asset disposals (in many cases at startling valuations) in the US. Coast also presented SPAC buyers to the board, who inexplicably refused to engage in any further dialogue after initial contact. Needless to say, the board has categorically refused to fully consider transactions other than an outright sale, which would immediately provide much greater upside for shareholders.

[4] Source: Capital IQ, excludes non-comparable UK real estate trusts
[5] Annual Report page 156
[6] Circular page 43
[7] FGP Investor Presentation April 23, 2021

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F. Failure to realize value for First Transit

FGP's board is in essence giving away our best-in-class transit operation, which generated $100 million in EBITDA in 2019 (pre-pandemic) and is being sold for just $380 million EV[8], and closer to just $150m in equity after debt-like items[9].

G. Board's refusal to seek a better proposal from EQT

This proposal will lead to a tremendous value transfer to EQT at the expense of FirstGroup shareholders, as is evident by the £250 million break-up EQT has agreed to pay not to lose this deal. Yet, the board has unequivocally told select shareholders that they would refuse to even try to renegotiate with EQT to sweeten the deal.

H. Misalignment of incentives

This board owns just 0.11% of shares outstanding and clearly has no incentive to create value for shareholders as evident by this proposal. The proposed transaction, were it to go ahead, would create an inefficiently over-capitalized company with complete uncertainty over any future returns to shareholders.

Coast Capital notes that the share price declined from a mid-pandemic high of ~100p (on the 8th of April) to just 72p after announcement of this transaction. This ~25% decline is in stark contrast to the performance of the company's closest peer, National Express, which has only declined by 10%. If a buyer had offered to acquire the entire company at a 25% discount and the board unanimously approved, shareholders would be enraged, yet this is almost exactly what is happening with the board's sale of our best and most valuable assets (up to 90% of the company's value) at a notable discount. Against this backdrop, the board's unwillingness, or inability at the very least secure the earn-out payable upfront which amounts to just 5% of deal value, but equates to an additional 50% in shareholder proceeds, is clearly unacceptable.

In conclusion, Coast Capital, along with many fellow shareholders, fail to understand this board's insistence on a rushed, destructive deal which would crystalize permanent value transfer, during a window in which they refuse to engage with any other buyers. This amounts to a clear breach of fiduciary responsibility which should not be tolerable to any stakeholder.

[8] FGP Financials, FGP Presentation April 23, 2021

[9] Disclosed in the SPA