COAST
CAPITAL

May 24, 2021

Coast Capital and its fellow shareholders in FirstGroup have long believed that the company's US & UK businesses do not belong together. However, we also understand that a sale of these best-in class public transport operations through a rushed and unexhaustive process in the middle of the largest pandemic in 100 years, at a significantly lower valuation than any comparable transaction, and for less than what FirstGroup acquired First Student & First Transit for 14 years ago[1], is unacceptable. A vote in favor of this destructive transaction is a clear breach of shareholders' fiduciary responsibility.

FirstGroup's Chairman states that "Shareholders have waited long enough[2]" for this transaction yet does not seem to deduce that shareholders have indeed waited too long to be rushed to accept an ill-conceived and ill-timed proposal to sell our crown jewel assets at a discount to book value. The board also does not seem to understand that these businesses stand to benefit from material federal subsidies and a re-opening and rebounding US economy. Considering this, Coast Capital remains puzzled that this board, with less than 0.1%[3] of shares, is forcefully pushing this negative premium transaction, against the wishes of dozens of investors including the two largest (which own nearly 30% of shares outstanding). ***Glass Lewis, who nearly always supports board recommendations, also recommends that shareholders vote against this proposal*** considering the rushed and incomplete nature of the disposal process, and inadequate valuation.

Shareholders in FirstGroup should be wary of the M&A recommendations of a board and management team who have destroyed nearly £1.3bn in shareholder value over the last 3 years alone[4]. Indeed, management has conducted multiple corporate strategic reversals, and the company's prior disposals have been disastrous or outright failures – note the disposal of Manchester's assets in 2019 for 40% of book value, and the failure to deliver on the promised Greyhound disposal for nearly 2.5 years now.

The fact that the board is unwilling or incapable of negotiating a deal which delivers even a modest improvement in sale terms is further proof of a tired and inexhaustive process. The lack of fairness opinion

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[1] Implied FSFT multiple of 8.8x EV/EBITDA, calculated as 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)
[2] FGP release May 21, 2021
[3] FirstGroup circular
[4] Total non-GAAP adjustments: 2018: £528m, 2019: £324m 2020: £410m

rendered by an independent advisor, as well as increasing evidence obtained by Coast Capital that more attractive alternatives exist which continue to be ignored, are all evidence of a board failing to meet its fiduciary responsibilities.

Rather than explore all options available, or seek to improve on this proposed transaction, the board has sought to instead spin Coast Capital's rejection of this inadequate bid as being indicative of a desire to take away from pensioners. Nothing could be further from the truth. The board then portrayed Coast Capital as a lone voice of dissent, only to see a chorus of fellow investors including the second largest investor, Schroders, as well as Glass Lewis, join Coast Capital in rejecting this proposal. Now, the board is seeking to use accounting tactics to try to hide the plain inadequacies and exceptionally low valuation that this bid places on shareholders' most prized assets.

We hereby address the latest accounting remarks from FirstGroup as the company seeks to mis-portray the transaction's implicit discount at which they are trying to force investors to sell their most valuable assets:

EBITDA Multiple

- As holders of a GBP-denominated plc and shares trading in GBP, shareholders will value this transaction on a GBP basis. We note that the Board is willing to sell a US-denominated business held by a GBP-denominated plc at a time when the USD has depreciated by ~10%, which ties back to the fact that right now is an extremely inopportune time to conduct a sale of FSFT. **However, even if we were to view the transaction on a USD basis, the EV/EBITDA multiple would be ~7x, significantly lower than peers at 9x to 12.5x.**
- **Including a highly uncertain earn-out in a headline multiple is also completely arbitrary and out of line with market practice**. We would agree to add back the 0.5x EV/EBITDA to its multiple if the earnout is paid upfront. Note that the share-purchase agreement makes it clear that EQT has multiple paths to avoid paying this earn-out, one of which would be to hold on to the FT asset for more than 3 years (which they are acquiring at an exceptionally low valuation of 4x EV/EBITDA).
- The current market practice and accounting standards are to include lease liabilities as debt-like items as we have shown. FirstGroup reports £450m in EBITDA[5], yet for this deal show a smaller

[5] FirstGroup financial reports & circular

accounting-adjusted EBITDA (i.e., denominator in the EV/EBITDA multiple) of just £402m[6] to inflate their "headline" EV/EBITDA.

- In effect, what management has shown in its presentation and circular is not a standard EV/EBITDA multiple, but instead a 'Total Uses of Capital' / EBITDA multiple – we believe this is a flawed valuation multiple and misrepresents the true value accrued to shareholders.
- Coast Capital also notes in management's response dated May 21, 2021 that FirstGroup will be retaining £166m of cash on First Student and First Transit's balance sheet[7]. **Accordingly, this retained cash should also be adjusted out of the transaction EV[8], and the true EV/EBITDA multiple therefore decreases further to 6.2x (from 6.5x earlier), or 6.7x on a USD basis:**

	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**
(+) Debt-Like IFRS 16 Lease Liabilities	142
(-) Retained Balance Sheet Cash	(166)
True Transaction EV[9]	**2,774**
(-) Self-Insurance Provisions	(389)
(-) Student + Transit Financial Debt	(218)
(-) IFRS 16 Lease Liabilities Transferred to Buyer	(142)
(+) Retained Balance Sheet Cash	166
Net Proceeds to FGP	**2,190**
FYMar'20 EBITDA	450
EV / EBITDA	**6.2x**

Book Value

- According to the Company's own statements, net proceeds are just £2.2bn[10], against March 2020 book value of £2.9bn, a September 2020 balance of £2.7bn, and a different September 2020 balance indicated in the circular of £2.5bn[11]. **However viewed, proceeds are less than book value.**

[6] FirstGroup presentation of EQT deal to investors April 23, 2021
[7] FirstGroup press release May 21, 2021
[8] Retained cash will be deducted when calculating net debt, and is therefore excluded from transaction EV
[9] On a like-for-like basis with comparable precedent transactions and public comps, including lease liabilities
[10] FirstGroup presentation of EQT deal to investors April 23, 2021
[11] FirstGroup 2020 Annual Report, September 2020 1H results, circular

- In violently defending this proposal, the board states: "**the transaction value *including the First Transit earnout* is 1.1x**[12]". We cannot count this uncertain earn-out and even if we did, it should be noted that FirstGroup itself bought Laidlaw International at ~2.4x P/BV back in 2007.
- For some further comparable references, Student Transportation Inc. earned a 5.9x P/BV and transactions in the UK have been executed at an average P/BV of ~3.5x over the last two years (through COVID)[13]. Considering this, we believe a valuation multiple of 0.9x is far too low and does not fairly value First Student and First Transit's market leading positions.

Peer Comparisons

- If we view the Student Transportation Inc. (STA) multiple on an EV/EBITDA-Capex basis to normalize for the difference in business models, the current proposed transaction is still at a ~25% discount to STA (despite STA being sub-scale to First Student and First Transit).
- Management mentions that upon reviewing "National Express as of 1 March 2020 pre-COVID, they conclude an EV/EBITDA multiple of 6.7x their US school bus and transit business[14]". **We believe their approach to assess the valuation as of a single date is highly flawed. Using a similar methodology, if we valued National Express on 20 February 2020 pre-COVID, the same multiple for its US business would be ~8.8x. This multiple would be ~8.9x on 19 February 2020, ~9.0x on 18 February 2020, and so on.** To mitigate this very issue, we have valued National Express's US school bus and transit assets over a normalized period. Using a 3yr average from February 2017 to February 2020, we conclude that the EV/EBITDA multiple was much higher at ~9.4x.
- Management needs to also recognize that the multiple we have assessed for National Express's US assets is based on a trading multiple, whereas the multiple for this proposed sale is a transaction multiple which should invariably be at a premium since we are ceding control of our crown jewel assets.
- **Nonetheless, National Express's EV/EBITDA multiple is higher at 9.4x, whereas this transaction falls short at only 6.2x, or 6.7x on a USD basis.**
- Lastly, First Student and First Transit are fundamentally route-based businesses with annuity cash flow streams and extremely low counterparty / credit risk. Upon performing a valuation analysis of

[12] May 21, 2021 FirstGroup Press Release
[13] Coast Capital RNS May 19, 2021
[14] FirstGroup press release May 21, 2021

other route-based businesses in the US, we note that the median **normalized pre-COVID valuation multiple of such businesses is ~18x EV/EBITDA[15], almost 3x the current proposed transaction multiple**. Yet again, the current proposed sale fails to capture the true fundamental value of First Student and First Transit, and management is content on selling these market leading businesses at a massive ~50% discount to their route-based peers.

In conclusion, unless the deal terms are materially improved upon, along with proposed use of proceeds, Coast Capital urges its fellow investors to vote against this destructive proposal. Many more attractive proposals are available to shareholders which we believe will be presented for shareholders to consider – but only if we vote against this inadequate EQT bid.

[15] Median EV/EBITDA of 12 route-based businesses in the US on a normalized, pre-COVID basis