

Statement by Coast Capital – FirstGroup PLC

Coast Capital Seeks Formal Strategic Review of its US Operations from FirstGroup Plc

Coast Capital represents more than 10% of the shares in First Group PLC.

Coast Capital believes that a formal and transparent strategic review is in the best interest of all investors, and their fellow stakeholders. This is also in line with the expressed wishes of the new chairman, and those of a plurality of investors. We therefore ask the board of FirstGroup to immediately embark on a formal sale process of the US assets, with a view to realize immediate and full value for all stakeholders.

Coast Capital agrees that there are no synergies between the UK and US assets of FirstGroup PLC, and that a sale of the US assets would not only release meaningful value for shareholders (please consult the valuation section of the attached presentation by Coast), but would also allow these businesses and their invaluable employees and managers to thrive under a well-capitalized owner which would focus on technological developments, growth of operations, and employee participation in the divisions' success. The analyst community also agrees, in overwhelming majority, that the best course of action is an immediate monetization of the US assets. In June 2019, for example, RBC stated that "If Coast Capital's plan (to sell the Student Bus and First Transit operations) succeeds, then we see scope up to 245 pence a share." Indeed just the Student Bus and US transit operations (which jointly generate 420+ million GBP in EBITDA out of the approximately 700 million in group EBITDA), if sold at peer multiples, would be valued well in excess of 3 billion GBP, against 1.4 billion in current market capitalization and 900 million GBP in net financial debt.

For further information, please contact Coast Capital
pa@coastcapitalllc.com
+1-646-722-2948



FirstGroup PLC: A World Leader in Public Transport

November 2019

FirstGroup owns and operates some of the most valuable assets in the public transport sector

➤ North America:

- First Student - Owns and operates the largest fleet of school buses in North America
- Greyhound - Owns and operates the largest fleet of inter-city buses (Greyhound, Greyhound Express, BoltBus)
- First Transit - Operates largest fleet of transit and paratransit vehicles

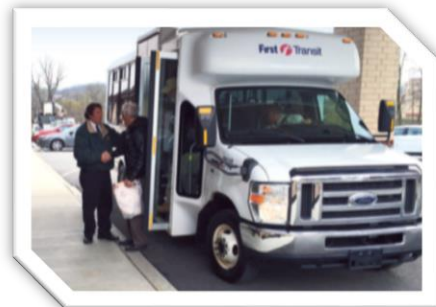
➤ UK:

- First Bus - Owns and operates second largest fleet of buses in the UK
- First Rail - Operates a suite of rail contracts across UK

Despite economies of scale and sector leadership, margins are below peers', and potential Current Valuation: 3.5x depressed EBITDA, fair value: up to 8x times peak



First Student



First Transit



Greyhound



First Bus - UK



First Rail - UK

Student Bus Growth Drivers:

- 66% of market operated by local municipalities, continued outsourcing will triple market size
- Growth through acquisitions and organic market share gains
- Incremental revenues: GPS bus tracking technology, field trips (under-explored at FGP)

US Transit Growth Drivers:

- Outsourcing and natural market growth: >5% p.a.

Greyhound Growth Drivers:

- Bus is fastest growing form of inter-city travel in North America
- BoltBus and Greyhound Express lead the sector
- Major growth drivers: migration to metropolitan areas, congestion, environmental awareness, price consciousness, Wi-Fi and improved offer

First Bus - UK Bus Growth Drivers:

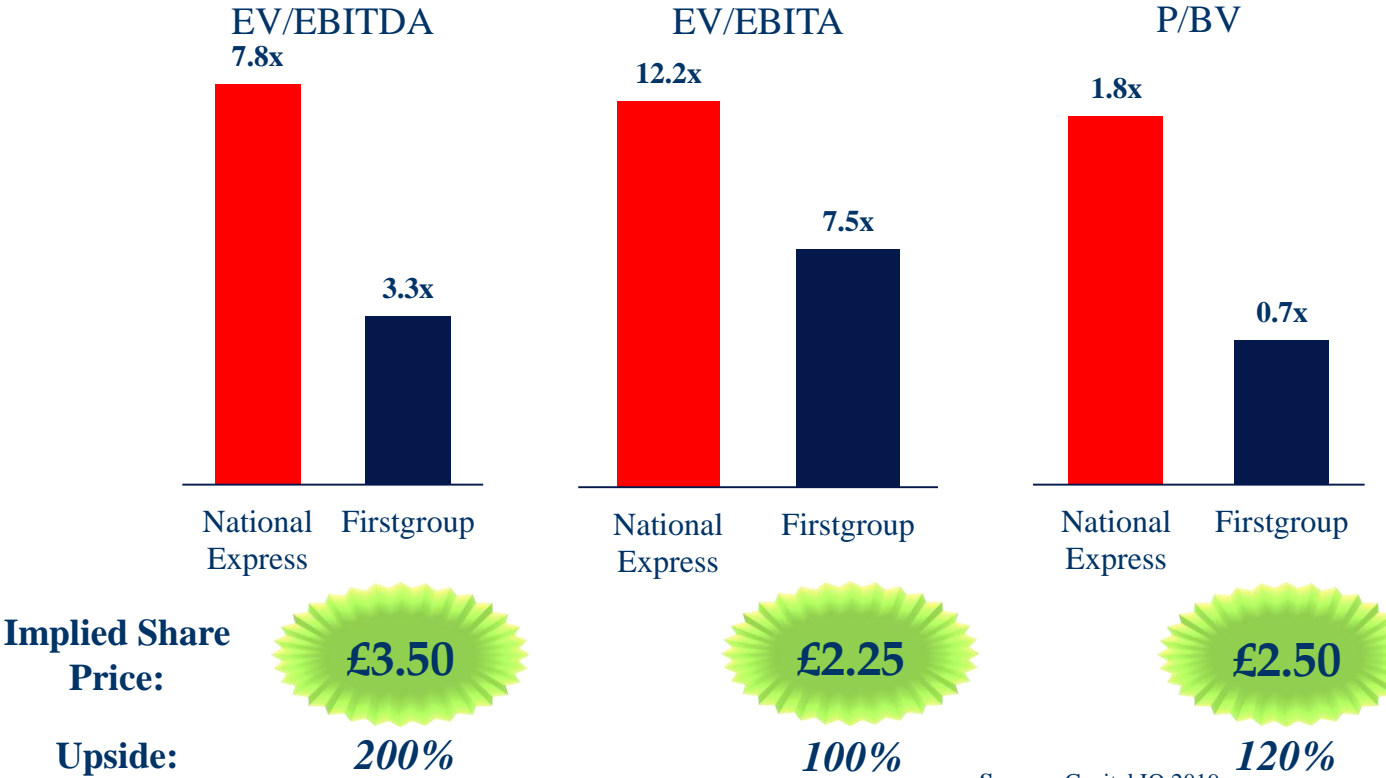
- Room for growth with population migration from rural into urban areas (70% of UK population is in non-urban areas)
- Consolidation in secondary routes

- **At 3.5x EV/EBITDA, FGP trades at an important discount to only direct peer National Express 8x EBITDA**
- **Discount due to:**
 - **Flawed board:** No directors with surface transport or turnaround experience in North America
 - **No Dividend**
 - **Capital Destruction:** Majority of current board has presided over nearly 1 billion GBP in capital destruction since 2013 (write-offs)
 - **Terrible earnings track record:** long history of over-promise, under-delivery
- **Coast Strategy to address these problems:**
 - New Chairman (nominated by Coast) is one of best surface transport operators in the UK
 - Monetize North American business at meaningful premium (company has no board member of management with required local / turnaround expertise)
 - Improve pension fund structure (Coast has introduced XPS and to FGP management)
 - Proceeds used to Re-initiate dividend conduct share buy back
 - New directors nominated by Coast to be appointed

Coast Capital's Plan to Release Value

- ✓ Removal of destructive directors & Chairman
- ✓ Appoint an experienced Chairman
- ✓ Call for a separation Greyhound
- ✓ No more bidding on Rail contracts
- ✓ Address and fix the UK pension plan
- Monetize U.S. Assets, leave upside with better management (Rampant PE interest)
- Implement a turnaround of valuable UK businesses
- Efficient capital allocation (leasing, dividends, buybacks)

"If [Coast Capital's] activism succeeds, then we see scope up to 245p [per share]"
 - RBC, June 2019



Forward SoTPs

Business	Fwd EBITDA	Multiple	Value
US - First Student	£ 396	8.0x	£ 3,171
US - First Transit	£ 79	8.0x	£ 628
US - Greyhound Divestment			£ 180
UK - First Bus	£ 138	6.0x	£ 831
UK - First Rail			£ -
Total			£ 4,810
Net Debt + Op Leases			£ (956)
Other (Pensions, Restricted cash, etc.)			£ (947)
Equity Value			£ 2,906

SoTP's Share Price	£ 2.41
Premium to Current Price	112%

“CHANGE is key to [FirstGroup] share value upside”

RBC May 2019

**At time of EGM: "Schroders and Columbia
Threadneedle to back Coast Capital "**

- Proactive Investors 2019

**"Value of market-leading positions masked
by underperformance."**

- Liberum September 2018

**"Transport to nowhere since the
equity rights issue"**

- RBC February 2018

**"The attempt to execute multiple multi-year
organic turnarounds has failed."**

- Liberum June 2018

**"...perplexed why FGP has been embarking
on debt refinancing without any guide of an
updated strategy of what it wants to be."**

- RBC April 2018

**"We are skeptical on Firstgroup, which has a
long track record of unreliable guidance."**

- HSBC April 2018

PEER COMPARISON



	First Student	Bottom Results	-		+	Top Results
Revenue Growth % (3Y)	7%	7%	△			17%
Wages as % of revenues	50%	53%		△		40%
G&A as % of revenue	4%	11%			△	1%
EBITDA margin	19%	19%	△			26%
EBITA margin	9%	4%		△		18%
Capex as % of revenues	11%	11%	△			5%
Revenue per employee (£k)	36.9	29.8				△36.9
Revenue per student journey (£)	2.0	1.2		△		3.6
Employee per 1000 bus	1143	1143	△			1111
Journey per Bus	119	53				△119
Average Cost per Employee £	23.0	23.0	△			15.0

IMPROVEMENT POTENTIAL

- **Procurement:** Bus acquisition costs are c. 10% higher than peers (\$25m+ cashflow uplift)
- **Focus on Safety & Technology:** Insurance costs are 2x higher than peers (upwards of \$100m dollars in cash flow uplift)
- **Resource Allocation:** to high growth, high margin regions
- **Resource Optimization:** Address surplus of 5,000 buses in fleet – 50% capacity utilization currently
- **Develop Charter Business:** Generates 50% higher margins than regular student business
- **Staff Productivity:** Upwards of 1,300 FTEs could removed - staffing costs are also 25% higher than peers

First Student (\$ in millions)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Revenues	\$ 2,323	\$ 2,351	\$ 2,425	\$ 2,522	\$ 2,623	\$ 2,728
% growth	0%	1%	3%	4%	4%	4%
EBITDA	\$ 455	\$ 447	\$ 465	\$ 513	\$ 564	\$ 607
% margin	20%	19%	19%	20%	21%	22%
EBITA	\$ 222	\$ 210	\$ 230	\$ 271	\$ 315	\$ 350
% margin	10%	9%	9%	11%	12%	13%

National Express: 13% - 15% EBITA margins

PEER COMPARISON



FY 18	KPI	Bottom Results	Top Results	KPI
Revenue Growth % (5 years)	2.9%			5.7%
Revenue per Employee (£k)	50	▲		91
EBITDA margin (%)	5.6%	▲		20.8%
EBIT margin (%)	4.0%	▲		11.9%
Avg. Capex % revenues (3 years)	1.8%	▲		11.4%
FTE / Vehicle (#)	2.7			1.5
Rev / Vehicle (£k)	85	▲		224
Journey / Vehicle (k)	27	▲		165
Rev / Journey £	1.4			3.2

IMPROVEMENT POTENTIAL

- Market leading player with long-term contracts and high revenue visibility
- Margins could still be improved 1-2%
- **Cost Reductions:** Revenue per employee is average compared to the peer group. This indicates that First Transit's personnel structure could potentially be improved in the future
- **Operating Leverage:** Greater scale from procurement & maintenance partnerships
- **Contract Optimization:** Bargaining to increase contracts to 5+ years would attract infrastructure partners who would pay top dollar to partner/acquire

First Transit (\$ in millions)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Revenues	\$ 1,359	\$ 1,420	\$ 1,411	\$ 1,454	\$ 1,505	\$ 1,557
% growth	4%	4%	-1%	3%	3%	3%
EBITDA	\$ 120	\$ 107	\$ 94	\$ 97	\$ 107	\$ 118
% margin	9%	8%	7%	7%	7%	8%
EBITA	\$ 95	\$ 79	\$ 68	\$ 70	\$ 79	\$ 89
% margin	7%	6%	5%	5%	5%	6%

PEER COMPARISON



KPI	KPI	Bottom Results	Top Results	KPI
Revenue Growth %(3Y)	2.2%		△	5.4%
EBITDA Margin (%)	8.5% △			15.7%
EBITDA Growth %(3Y)	(7.0%) △			7.2%
Capex/ Revenue	4.1%	△		10.7%
Revenue/ FTE (£k)	51		△	115
Revenue/ Bus (£k)	116		△	431
FTE/ Bus	3.75 △			1.45
Revenue per mile (£)	2.30 △			4.85

IMPROVEMENT POTENTIAL

- **Bus Allocation & Network Optimization:** Reallocate more buses to rapid growth business (Bolt), more focus on sub-400 mile city-pairs
- **Dynamic Pricing:** Implement dynamic pricing model (reserve seats, excess baggage, app-based reservations)
- **Fleet Rejuvenation:** Newer fleet decreases maintenance costs while improving quality
- **Expansion Opportunities:** Megabus merger potential, development of a luxury brand
- **Food Services:** Partner with Subway to provide F&B options on routes
- **Outdoor advertising:** 1,500 buses earn \$750/month displaying ads
- **Third Party Logistics:** Realize value from 70% empty haul capacity
- **Station & RE Development:** Closer to airports, optimize real estate portfolio

Greyhound (\$ in millions)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Revenues	\$ 894	\$ 913	\$ 847	\$ 864	\$ 898	\$ 952
% growth	-2%	2%	-7%	2%	4%	6%
EBITDA	\$ 104	\$ 77	\$ 50	\$ 69	\$ 90	\$ 114
% margin	12%	8%	6%	8%	10%	12%
EBITA	\$ 55	\$ 33	\$ 13	\$ 31	\$ 51	\$ 75
% margin	6%	4%	2%	4%	6%	8%

PEER COMPARISON



KPI	KPI	Bottom Results	Top Results	KPI
Three-year sales growth	(0.8%)	△		2.2%
Revenue / FTE (£k)	47.7		△	59.7
Revenue / Bus (£k)	137.0		△	174.0
EBIT Margin (vs. Regional peers)	5.7%	△		11.9%
EBIT Margin (vs. London peers)	4.3%		△	8.3%
1-year Operating Margin Δ (ppts)	(2.5%)			△ 2.3%
FTEs per 1,000 buses	3,102		△	2,679
Revenue per journey (£)	1.48	△		1.99
Journeys per bus (k)	81.0			△ 100.7

IMPROVEMENT POTENTIAL

- **Management & De-centralization:** Change CEO, empower & incentive local management, decentralize procurement & route management
- **Portfolio Optimization:** 1/3rd routes are loss making, close worst performing routes and redeploy into higher growth regions
- **Revenue Enhancement:** Analysis of route profitability, passenger price elasticity, and local council stance on pricing, can increase average journey revenue
- **Redevelop depots:** £150 million book value of real estate acquired in the 1980s, could be redeveloped with mix use (parking & commercial)
- **Operational Processes:** “A review of direct operational processes and organizational structures, as well as leveraging personnel per operating bus could deliver significant performance improvement even at only 25% 50% of the way to the best in class performance” – Alvarez & Marsal

First Bus (GBP)	FY18	FY19	FY20E	FY21E	FY22E	FY23E	FY24E
Revenues	£ 879	£ 876	£ 876	£ 894	£ 911	£ 939	£ 967
% growth	2%	0%	0%	2%	2%	3%	3%
EBITDA	£ 116	£ 120	£ 134	£ 134	£ 146	£ 150	£ 155
% margin	13%	14%	15%	15%	16%	16%	16%
EBITA	£ 50	£ 64	£ 81	£ 101	£ 122	£ 117	£ 121
% margin	6%	7%	9%	11%	12%	12%	12%

PEER COMPARISON

STAGECOACH GROUP
greener smarter travel

Go-Ahead

arriva
a DB company

	First Rail	Bottom Results	-		+	Top Results
Revenue Growth % (3Y)	23%	-16%				△ 23%
EBITDA Margin ¹	5.5%	2.7%				△ 5.6%
Operating profit margin ¹	1.9%	1.7%				△ 1.9%
Capex as % of revenues	6.4%	6.4%	△			1.1%
Revenue per passenger/ journey	7.2	4.9		△		10.9
Revenue per FTE, £k	188	156		△		221
Revenue per passengers km, £	0.16	0.14		△		0.18
FTE/1m passenger km	0.86	1.16			△	0.71

IMPROVEMENT POTENTIAL

- FirstGroup operates 4 rail concessions across the UK - risk/reward parameters are changed by the Government (currently under review)
- Losses for division are capped circa £300 million (can then hand back to government)
- Capex is front loaded on rail concessions - expect minimal capex spend in the future
- Business is currently worthless, but there are areas to cut costs and marginally improve profitability (call option on value)
- **Bidding:** Stop bidding on rail concessions (Saving upwards of £10 million annually)
- **Staff Productivity:** Aligning productivity to Go Ahead through better planning and scheduling optimization could save about ~1,800 FTEs.

First Rail (GBP)	FY18	FY19	FY20E	FY21E	FY22E	FY23E	FY24E
Revenues	£ 1,969	£ 2,667	£ 2,834	£ 2,994	£ 3,038	£ 3,084	£ 3,130
%growth	55%	35%	6%	6%	1%	1%	1%
EBITDA	£ 129	£ 127	£ 122	£ 119	£ 100	£ 72	£ 72
%margin	7%	5%	4%	2%	1%	1%	1%
EBITA	£ 58	£ 46	£ 52	£ 49	£ 30	£ 30	£ 30
%margin	3%	2%	2%	2%	1%	1%	1%

Coast Capital is a European-focused, event-driven fund

We invest in companies that are leaders in growing and profitable industries, with low valuations and transformational events to release value

Our key differentiators are:

- We conduct detailed operational due diligence with the help of our advisory board members, who are leading executives in the industries in which we invest, and are among our founding investors
- We are actively engaged investors
- We focus on the ESG impact of our investments

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