
FIRSTGROUP PLC AGM TRADING UPDATE

FirstGroup plc ('FirstGroup' or 'the Group') provides the following update on developments between 1 April and 31 August 2020 (the 'period'), ahead of today's Annual General Meeting.

Overview

- Stronger than expected financial performance, with adjusted operating profit and cash from operations ahead of our expectations during the period, driven by better revenue recovery and strong cost control
- Governments and our customers are extending the funding measures necessary to underpin our critical services in light of ongoing social distancing rules, the delayed start of in-person teaching by many of our school customers in North America and other effects of the coronavirus pandemic
- The Group is now expecting to deliver a small adjusted operating profit for the seasonally weaker first half of the financial year, ahead of our expectations earlier this summer
- c.£850m in committed undrawn liquidity has improved since April, in part reflecting positive cash from operations (and after debt financing costs)
- Reiterating confidence in comfortably meeting covenants as at 30 September 2020; net debt: EBITDA on the basis relevant for the bank test is expected to be c.2 times (covenant requires less than 3.75 times)
- It is not possible to predict with certainty the medium-term effects of the coronavirus pandemic on our business, however clarity is improving over time as we agree responses to the evolving situation with our customers and stakeholders
- The Board is resolutely focused on executing the portfolio rationalisation strategy through divestment of the North American businesses and is encouraged by significant interest from potential buyers

Update on operations – North America

Since the Group's full year results were announced in early July, many US states have experienced increases in the number of positive coronavirus cases, resulting in changes to local guidance and differing views about the most appropriate ways to return to pre-pandemic activities such as education and intercity travel.

In **First Student**, many school districts continue to review and alter their back to school plans in light of dynamic local conditions even as the school year gets underway. We are supporting each of our 1,100 customers to implement school transportation services in line with their requirements. Even though many schools delayed the start of full in-person teaching for the new academic year, by last week c.45% of our fleet were operating home to school services. Of the remainder, most serve schools which are starting with a mixture of in-person and online teaching, although a portion are all online at present. We are in active discussions with all schools where full transportation is not yet restored to ensure that when required we can restart services rapidly. As was the case earlier in the year, we have begun negotiating full or partial payments from many of our customers to support that objective. At this stage we have already agreed payment in respect of approximately one third of those buses where school start was delayed or full service has not yet been restored, with an average recovery rate of c.70% of their pre-pandemic revenue. We also continue to work hard to mitigate costs in light of these rapidly changing requirements and to secure the appropriate government funding. As anticipated, very little charter activity is currently being undertaken.

We have been able to take on additional business from struggling smaller competitors and our pipeline of potential bolt-on acquisitions remains strong. We are also pleased that our Hopewell special education business acquisition has successfully been awarded a number of new contracts in this year's bid season, demonstrating our growth potential in this area.

As in every year, First Student has incurred fixed and school start-up costs but little revenue during the school summer holiday months, resulting in a significant seasonal difference in its profitability between the first and second half of our financial year.

Many of **First Transit**'s contracts are classed as essential services and are based on payment for availability rather than volume, so the division experienced less of an impact on revenues compared with our other divisions during the lockdown phase. While recovery rates since then vary by sub-segment, overall First Transit is now operating c.67% of pre-coronavirus services compared with c.60% at the low point, and generating c.80-85% of the revenue expected prior to the crisis. We have continued to secure future business in the period, including retention of two important multi-year contracts (in paratransit and fixed route respectively), each with base term revenues of more than \$50m. Amongst other new business, First Transit has recently commenced a new mobility on demand shared transit service in California and expanded its successful paratransit partnership with Lyft in the period.

Incremental increases in **Greyhound** passenger volumes have been broadly in line with our assumptions in the period. Revenue has improved to c.35-40% of pre-pandemic levels reflecting this trend, as well as the ongoing suspension of our Canadian operations due to the closure of the border with the US. Negotiations with state agencies are on track to secure further CARES Act intercity bus funding to operate our community-critical network. Greyhound continues to improve yields, optimise its cost base and rationalise its property footprint by moving operations to intermodal transport hubs or new facilities better tailored to its needs. The division exited five small surplus locations in the period, despite a hiatus in commercial property transactions early in the pandemic, and a number of other property transactions are progressing.

The Group is resolutely focused on executing the portfolio rationalisation strategy to unlock material value through the sale of the North American businesses and is encouraged by significant interest from potential buyers. The pandemic and its attendant uncertainties have affected the speed at which this process can be concluded but the Board is intent on achieving this as expediently as possible and in the best interests of all shareholders.

Update on operations – UK

With schools and universities restarting in the UK, **First Bus** has recorded an encouraging acceleration in the rate of patronage recovery in recent weeks. Passenger volumes across the division have increased from c.10% of pre-pandemic levels at the low point to more than 50% last week. The division has recently increased operated mileage to almost 90% of pre-pandemic levels to provide more capacity as demand increases, even as social distancing restrictions remain in place. In August we welcomed the UK Government's extension of funding to support the provision of these vital services by regional bus operators in England. The COVID-19 Bus Service Support Grant Restart (CBSSG Restart) programme is now in place on a rolling basis until such time as it is no longer needed, with an eight week notice period.

Passenger volumes on our **First Rail** operations have increased modestly during the summer, but still remain at c.30% of pre-pandemic levels on average. Our rail franchises have been operating under the terms of the Emergency Measures Agreements (EMAs) put in place by the UK Government and have recently increased capacity to c.90% of pre-pandemic levels on average to support the return to places of work and schools.

At the start of September the EMA in respect of Great Western Railway (GWR) was extended under its previous terms until at least 26 June 2021. GWR is our largest railway operation and had £266m of cash ring-fenced within it as at 31 March 2020 out of a First Rail total of £612m. GWR's original EMA was signed on the same day as the new franchise agreement in March, and the DfT's option to review the EMA formed part of that contract. This process and timing is different from our other three rail franchises which were already on established franchise agreements before adopting EMAs in response to the pandemic.

Discussions are progressing with the DfT about the other franchises which are under EMAs until 20 September 2020, and further updates will be provided to the market as appropriate.

Update on liquidity and financial position

As at the end of August 2020 FirstGroup had c.£850m in free cash (before rail ring-fenced cash) and committed undrawn revolving banking facilities. Liquidity has therefore improved since April, (after debt financing costs paid in the period), benefitting from better than expected cash from operations in recent months. The Group has also successfully reduced its capital expenditure programme while meeting our commitments to our customers.

Overall, our divisions have delivered better revenue recovery and strong cost control in the period and the Group is now expecting to generate a small adjusted operating profit in the seasonally weaker first half of the financial year. This anticipated result is ahead of our expectations earlier this summer.

Net debt: EBITDA on the basis relevant to the bank covenant tests is expected to be c.2 times as at 30 September 2020, comfortably complying with our 3.75 times bank covenant requirement. As noted in July the Board keeps the liquidity and covenant position under constant review and will take appropriate action, including the negotiation of covenant waivers, as required or considered prudent.

Commenting on today's announcement, FirstGroup Chief Executive Matthew Gregory said:

"Passengers can be confident that public transport is safe and we are encouraged that activity levels are increasing, especially since the start of the new school year on both sides of the Atlantic. We continue to work with our customers, communities and governments to maintain the availability of our transportation services which are so crucial to the recovery of local economies.

"Although the ongoing impact of the pandemic on the Group continues to evolve, clarity is improving over time. We continue to take all necessary action to protect the business and to ensure the Group is in the most robust position possible to deliver on our strategic plans.

"As we head into the autumn, our priorities are to continue delivering safe, reliable transport services that meet the changing needs of our customers and communities, and to execute the sale of the North American businesses as expediently as possible and in the best interests of all shareholders."

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Legal Entity Identifier (LEI): 549300DEJZCPWA4HKM93. Classification as per DTR 6 Annex 1R: 3.1.

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About FirstGroup

FirstGroup plc (LSE: FGP.L) is a leading provider of transport services in the UK and North America. With £7.8 billion in revenue in 2020 and around 100,000 employees, we transported 2.1 billion passengers. Whether for business, education, health, social or recreation – we get our customers where they want to be, when they want to be there. We create solutions that reduce complexity, making travel smoother and life easier. We provide easy and convenient mobility, improving quality of life by connecting people and communities. Each of our five divisions is a leader in its field: In North America, First Student is the largest provider of home-to-school student transportation with a fleet of 43,000 yellow school buses, First Transit is one of the largest providers of outsourced transit management and contracting services, while Greyhound is the only nationwide operator of scheduled intercity coaches. In the UK, First Bus is one of Britain's largest bus companies with 1.4 million passengers a day in 2020, and First Rail is one of the country's most experienced rail operators, carrying 340 million passengers in the year. Visit our website at www.firstgroupplc.com and follow us @firstgroupplc on Twitter.