**Our trading performance was ahead of our expectations in the year. Looking forward, we have a stable business platform that is well positioned for growth, and I believe our portfolio rationalisation plans provide a clear path to deliver enhanced sustainable value for all our stakeholders.**

**Matthew Gregory**
Chief Executive

## Introduction

I am pleased to report that the Group has taken action to move forward this year in several areas. Our Road divisions have made progress, principally reflecting the growth and adjusted margin expansion in First Student and First Bus we have delivered over recent years. While Greyhound's overall performance this year was disappointing, the plan we put in place last autumn is beginning to have a positive impact. The landscape of UK rail is challenging, and we have concerns with the current balance of risk and reward being offered. We await the outcome of the Williams review as it seeks to address these and other industry issues.

As I reflect on the seven months since being appointed Chief Executive, I am confident that each of our five businesses has a clear strategy in place, and is working hard to deliver it. Overall the Group is making progress, but what is equally clear is that different parts of our portfolio face increasingly divergent opportunities and challenges as they work to deliver for our customers – each requires an increasingly tailored approach and focus to move forward and innovate to generate value for both customers and shareholders alike.

Accordingly, we have announced plans to rationalise our portfolio with the Group's future emphasis on First Student and First Transit, our market leading contract-based businesses, which share increasingly similar attributes and opportunities to generate sustainable value and growth from the strong platforms they provide in the North American mobility services market.

## Trading performance in the year

Our largest business **First Student** delivered a strong bid season last summer with excellent retention rates and significant new business wins, resulting in growth in revenue, bus count and market share for the first time in several years. We were also pleased to maintain our high customer satisfaction scores of 8.75 out of ten, reflecting our continued emphasis on serving our customers. With a solid school start-up, continued focus on managing our driver shortage challenges and more typical winter weather patterns, First Student was able to expand margins by 50bps to 9.5%. With continued bidding discipline, further operational, safety and efficiency improvement actions underway, a growing focus on selective acquisitions in the fragmented home-to-school market and opportunities to enter adjacent markets and develop complementary mobility and transportation services, First Student is increasingly well placed to build on its market leadership position in the years ahead.

**First Transit** also delivered a good contract retention performance, and together with the roster of new business wins we were able to offset the completion of certain high margin contracts in the Canadian oil sands region at the end of the prior year. The result was First Transit's revenue was essentially flat year-on-year, and the current inflationary cost environment reduced margins. However, First Transit is at the front end of the Group in capturing opportunities in Mobility as a Service (MaaS) and Shared Autonomous Vehicles (SAV), and we are confident this puts our First Transit business in a strong position to generate value in North American mobility services in future.

**Greyhound** has faced a particularly challenging market environment, but we have taken decisive action to chart a course to improved profitability with the withdrawal from Western Canada in October, and the changes we made to our pricing and yield strategies, commercial team, and the broader cost base following the business review we conducted last summer. We are pleased with the incremental signs of progress in yields since our plans were implemented.

Conditions in each of our local markets across the UK remain variable for **First Bus**, but we are encouraged that the division as a whole continues to achieve like-for-like growth and delivered 180bps of adjusted margin improvement, responding to the investments in customer convenience and the structural changes we have implemented in recent years.

The environment for our **First Rail** operations remains difficult with timetabling, infrastructure issues and strike action all having an effect on our services for passengers. Since January our operational delivery for passengers has begun to improve. With regard to SWR, we have prepared updated financial forecasts until the initial franchise end date of 17 August 2024, which are based on a number of assumptions, most significantly passenger revenue growth and the impact of the Central London Employment and Gross Domestic Product revenue protection mechanisms, as well as the impact of changes in timetables, capacity, aging infrastructure and rolling stock. There is considerable uncertainty about the level of passenger revenue growth and future impact of the industrial action in addition to uncertainty as to the level of strike amelioration recoverable from the DfT, and we remain in negotiations with them. Progress has been made and we continue to be engaged in discussions with the DfT to agree potential commercial and contractual remedies but, at the current time, there is a range of potential outcomes. Based on these forecasts the Group has concluded that it has an onerous contract, the value of which is estimated to be £145.9m in total, which is the maximum unavoidable loss under the Franchise Agreement. Accordingly, this amount has been charged to the income statement. FirstGroup's 70% share is therefore £102.1m.

Overall, the **Group** delivered revenue growth of 5.7% and an increase in adjusted operating profit of 10.5% in constant currency (adjusting for the impact of a part-year of SWR and the 53rd week in the prior year), with lower finance and tax charges resulting in an increase in adjusted EPS of 15.2% in constant currency, to 14.4p (2018: 12.3p). However the Group's statutory results were adversely impacted by a number of events, recorded as adjusting items in the accounts. These arose principally as a result of the SWR onerous contract provision noted above, the charge required to enlarge the Group self-insurance reserve, costs associated with Greyhound's withdrawal from Western Canada, and the past service charge for the guaranteed minimum pensions. As a result, the Group reported a statutory operating profit of £9.8m in the year (2018: loss of £196.2m) and statutory EPS of (5.5)p (2018: (24.6)p).

## Investing in easy and convenient mobility

During the year we have aligned our commercial plans and investments to the areas where they will make the most difference for our customers. For example, our delivery of contactless ticketing machines across all of our First Bus operations is offering our passengers an easy and convenient method of payment. Greyhound have further enhanced their website and customer service offering with strong take-up of online e-tickets which drivers can scan in a fast, seamless and simple boarding process. First Student and First Transit continue to roll out maintenance management and GPS-based driver systems to enhance efficiency and service for our clients. Each of our First Rail train operating companies is introducing new trains and refurbishing existing rolling stock, the designs of all of which have been developed through extensive consultation with passengers and other regional and national stakeholders. While we focus on putting our customers first when we develop these plans, we also aim to balance the needs of other stakeholders including our people, local communities, and environmental groups.

## Unlocking value in the year

In addition to our commercial and investment activities, we have taken other significant actions to unlock value in the year. As well as the changes we have made to Greyhound's operational footprint in Canada, we have continued to optimise its property portfolio. Amongst other changes, we sold a large maintenance facility in Chicago in January. In First Bus we reviewed our Manchester operations, and announced the sale of Queens Road depot during the year.

## Liability management

We continue to look for opportunities to optimise our funding costs. In the year we amended and extended our core £800m revolving bank facility to November 2023 and refinanced a £250m 6.125% coupon bond  from cash on hand and revolving bank facilities as planned. The Group's next major refinancing is a £350m 8.75% bond due April 2021. At the start of the year the Group and Bus defined benefit schemes in the UK were closed to future accrual. In the year, we continue to work with trustees to facilitate members' engagement with and utilisation of their pensions freedoms, which assists in improving funding levels, and we are working with the various UK schemes to progressively derisk their investment strategies. Engagement with the First Bus trustees on funding objectives was already well underway in advance of the 5 April 2019 triennial valuation date.

The Group has recognised a charge of £94.8m in the year to increase the level of the North American self-insurance reserves, following a deterioration in the claims environment and therefore an increase in the estimated level of settlements. A review of the claims portfolio has been carried out as well as an additional independent actuarial review, resulting in a decision to increase the estimated value of the provision. The majority of these claims are expected to be settled over the next five years. The Group has a very strong focus on safety and it is one of our five values. During the year the Group's continuous focus on behavioural change, safety assurance and technology implementation has resulted in a reduction in the number of injuries to passengers, employees and third parties, as well as vehicle collisions – though we view every such incident as one too many, and it strengthens our resolve to achieve zero harm.

## Portfolio rationalisation plans

The Board regularly reviews all appropriate means to mobilise the considerable value inherent in the Group, recognising that there are certain constraints and friction costs to overcome in the case of some potential options, and will continue to do so. In light of the performance improvements we have achieved through our divisional strategies, and the changes in the wider environment, we believe that the most appropriate means to deliver enhanced sustainable value is through a rationalisation of the portfolio.

### Our North American contract businesses

In future our core market will be North America, and centred on First Student and First Transit, our market leading contract-based businesses, which together generated 60% of the Group's operating profits in 2019. They share increasingly similar attributes and opportunities to grow and create value, and between them we have established a strong and profitable platform in North American mobility services.

We have improved **First Student**'s margins substantially to 9.5% in 2019 through a combination of our rigorous returns-based contract bidding strategy and sustained cost and process efficiencies. We are confident that our largest business is now restored to a position of generating sustainable growth, cash and returns from its multi-year contract portfolio, which remains by far the largest in the North American home-to-school bus market. Looking ahead, First Student is targeting development of complementary transportation and mobility technologies and services, entry into adjacent markets as well as organic and M&A-led growth in the home-to-school market.

**First Transit** has delivered long term growth as North American transit markets continue to outsource, and has built a diversified transit management contract portfolio that generates attractive returns and cash flow given the relatively modest capital requirements. We are targeting further long term growth from First Transit's core markets, particularly in shuttle and in vehicle services, and have already established our credentials in a number of attractive adjacent markets – such as commuter rail and bus rapid transit (BRT). First Transit is at the front end of the Group in capturing opportunities in Mobility as a Service (MaaS) and Shared Autonomous Vehicles (SAV). Our business is in a strong position to generate value as transit management markets continue to evolve, as we leverage our partnerships with ridesharing and other Transportation Network Companies to remain at the forefront of innovation.

First Student and First Transit are increasingly overlapping in terms of the technologies and management skillsets required to thrive in response to the market opportunities in front of them. As we drive our core contracting businesses forward we will ensure that our management and functional structures are positioned to capitalise further on the platform we have built in the emerging North American mobility services market.

### Separation of Greyhound and First Bus

**First Bus** is one of the largest operators in the UK with a fifth of the market outside of London. We have improved our offering by investing in our fleet and transforming our networks, payments systems and passenger information services to improve simplicity and convenience for customers. We have significantly improved cost efficiency in the division, through investment in operations and maintenance systems and by rationalising our footprint via network changes, depot sales and closures. As a result, First Bus margins have improved to 7.5% in 2019 and it is now on a much stronger footing as a business. First Bus has limited synergies with our other operations and, having set the business on the path to increased profitability, we believe now is the right time to pursue structural alternatives to continue this progression and deliver value to shareholders while managing the division's longer term liabilities.

**Greyhound** is the only operator of scheduled intercity coaches in North America, with a unique nationwide network and an iconic brand. We have invested in Greyhound to implement airline-style yield management and real-time pricing, up-to-date booking and ticketing options and improved customer communications channels. We have also reduced Greyhound's footprint in Western Canada and continue to release value by optimising its property portfolio. Greyhound has limited synergies with our other, predominantly contract-based, North American businesses and we believe that value for shareholders can best be delivered by seeking new owners that will further support the continued development of this business. As such a formal sale process for Greyhound is underway.

As part of our portfolio rationalisation plans to separate Greyhound and First Bus from the Group, we will evaluate our capital structure and capital allocation policy as we move forwards, to ensure it is optimal for supporting future growth and shareholder returns while still maintaining an appropriate balance sheet.

### First Rail

We have a portfolio of separately managed rail franchise businesses in the UK which we will operate in accordance with their contractual terms. **First Rail**'s goal remains to add value through our operational expertise and strong industry relationships. Our UK rail franchise portfolio has generated £330.9m in adjusted profit with net cash and dividends to the Group over the last five years. However, given our reduced expectations for our two most recently awarded franchises, we have concerns with the current balance of risk and reward being offered. We await the outcome of the UK government's review into the structure of the whole rail industry chaired by Keith Williams as it seeks to address these and other industry issues. Any future commitments to UK rail will need to have an appropriate balance of potential risks and rewards for our shareholders.

## Group trading outlook for the year ahead

In 2019/20, we expect to deliver revenue growth and financial progress in the Road divisions, offset by Rail's particularly strong adjusted profit contribution in 2018/19 moderating to more normal levels in the year ahead. Overall, we expect adjusted earnings to be broadly in line with our expectations. Our margin expectations are underpinned by structural change and efficiency programmes launched this year.

## Conclusion

Since becoming Chief Executive in November 2018, I have been focused on setting the Group on a clear path to enhance value. By executing the portfolio rationalisation plans we have announced, our future emphasis will be on First Student and First Transit, our core contracting businesses in North America. We see significant potential to generate long-term, sustainable value and growth from the solid platform these businesses provide in the North American mobility services sector. We are intent on executing this strategy at pace, having full regard to the regulatory and stakeholder procedures and approvals that will be required.

In parallel with our portfolio rationalisation plans we will continue to drive forward the clear strategies now established in each of our divisions to ensure they deliver further progress and growth in existing and adjacent markets, underpinned by plans to enhance our cost base further.

Our plans will create a more focused portfolio, with leading positions in our core North American contracting markets, and is the most appropriate means for us to deliver enhanced sustainable value for all our stakeholders.

**Matthew Gregory**
Chief Executive
30 May 2019