

FirstGroup plc **Half-yearly results**

For the six months to
30 September 2017

Tuesday 14 November 2017





Tim O'Toole

Chief Executive



- Overall trading for the Group in the first half consistent with plans outlined at start of the financial year



- Strong cash performance in the period, in addition to inflows from SWR



- Solid performances partially obscured by impact of recent severe hurricanes



- Confident that the Group will make further progress and deliver substantial cash generation for the full year



Matthew Gregory

Chief Financial Officer

Financial review



- Group revenue +8.1% including new SWR rail franchise and favourable fx; excluding these, Group revenue was +0.9% with growth in four out of five divisions



- Adjusted operating profit £89.4m (H1 2016: £89.0m) principally reflects solid trading and favourable fx offset by impact of severe hurricanes on Transit



- Adjusted EPS +35.7% and flat in constant currency



- Net cash inflow of £97.0m (H1 2016: outflow of £64.3m) in the period includes an improvement of £86.2m in addition to a £75.1m working capital inflow from SWR



- Capital expenditure to depreciation (excluding First Rail) at 1.0x in the period
- Net debt:EBITDA improved to 1.7x (H1 2016: 2.4x)

Financial summary



£m	Sep 2017	Sep 2016	Change	Change in constant currency ¹
Revenue	2,771.3	2,564.7	+8.1%	+3.5%
Adjusted²				
- EBITDA	278.2	251.7	+10.5%	+3.7%
- Operating profit	89.4	89.0	+0.4%	(9.1)%
- Margin %	3.2%	3.5%	(30)bps	(50)bps
- Net finance costs	(58.9)	(67.1)	(12.2)%	
- Profit before tax	30.5	21.9	+39.3%	+2.0%
- Effective tax rate %	30.0%	25.1%	+490bps	
- Attributable profit	22.4	16.3	+37.4%	+0.4%
- EPS p	1.9p	1.4p	+35.7%	flat
Net debt ³	1,179.9	1,491.5	(20.9)%	(20.3)%

¹ Change in constant currency throughout this document is based on retranslating H1 2016 foreign currency amounts at H1 2017 rates

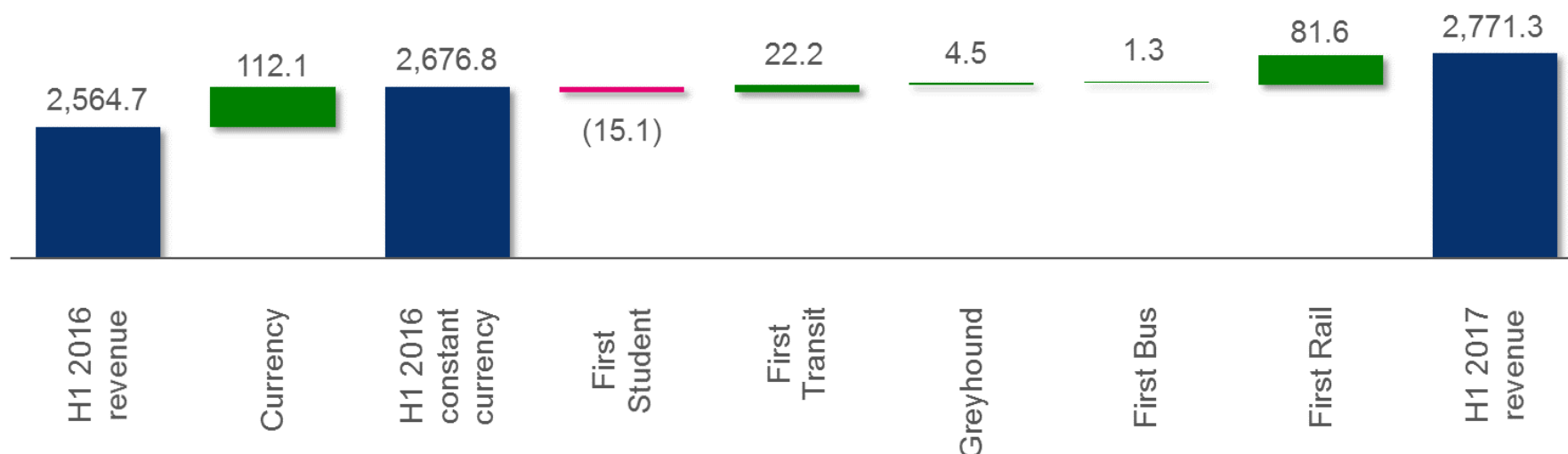
² Before amortisation charges and certain other items

³ Net debt is stated excluding accrued bond interest

Revenue performance

- Growth in First Transit, First Rail, Greyhound and First Bus
- First Student fewer operating days; 'up or out' bidding strategy continues
- First Rail reported revenue includes one period of new SWR franchise – excluding SWR First Rail increase was +1.8%

Sep 2017 revenue	£m	Change (constant fx)
First Student	763.1	(1.9)%
First Transit	536.4	+4.3%
Greyhound	358.8	+1.3%
First Bus	428.2	+0.3%
First Rail	677.4	+13.7%
Group items	7.4	
Total	2,771.3	+3.5%
SWR adjusted¹		+0.9%
Reported total		+8.1%



¹ Adjusts for the addition of South Western Railway to the First Rail franchise portfolio and in constant currency, being based on retranslating H1 2016 foreign currency amounts at H1 2017 rates

Operating performance

- First Student lower with fewer operating days in period, as anticipated
- First Transit principally impacted by hurricanes, and higher costs associated with driver shortages
- Improvement in First Bus and First Rail margin

Sep 2017 operating profit ¹	£m	H1 2017 margin ¹	Margin change (constant fx)
First Student	14.8	1.9%	(70)bps
First Transit	20.9	3.9%	(230)bps
Greyhound	23.5	6.5%	(100)bps
First Bus	15.8	3.7%	+50bps
First Rail	31.1	4.6%	+90bps
Group items	(16.7)		
Total	89.4	3.2%	(50)bps
Reported total			(30)bps



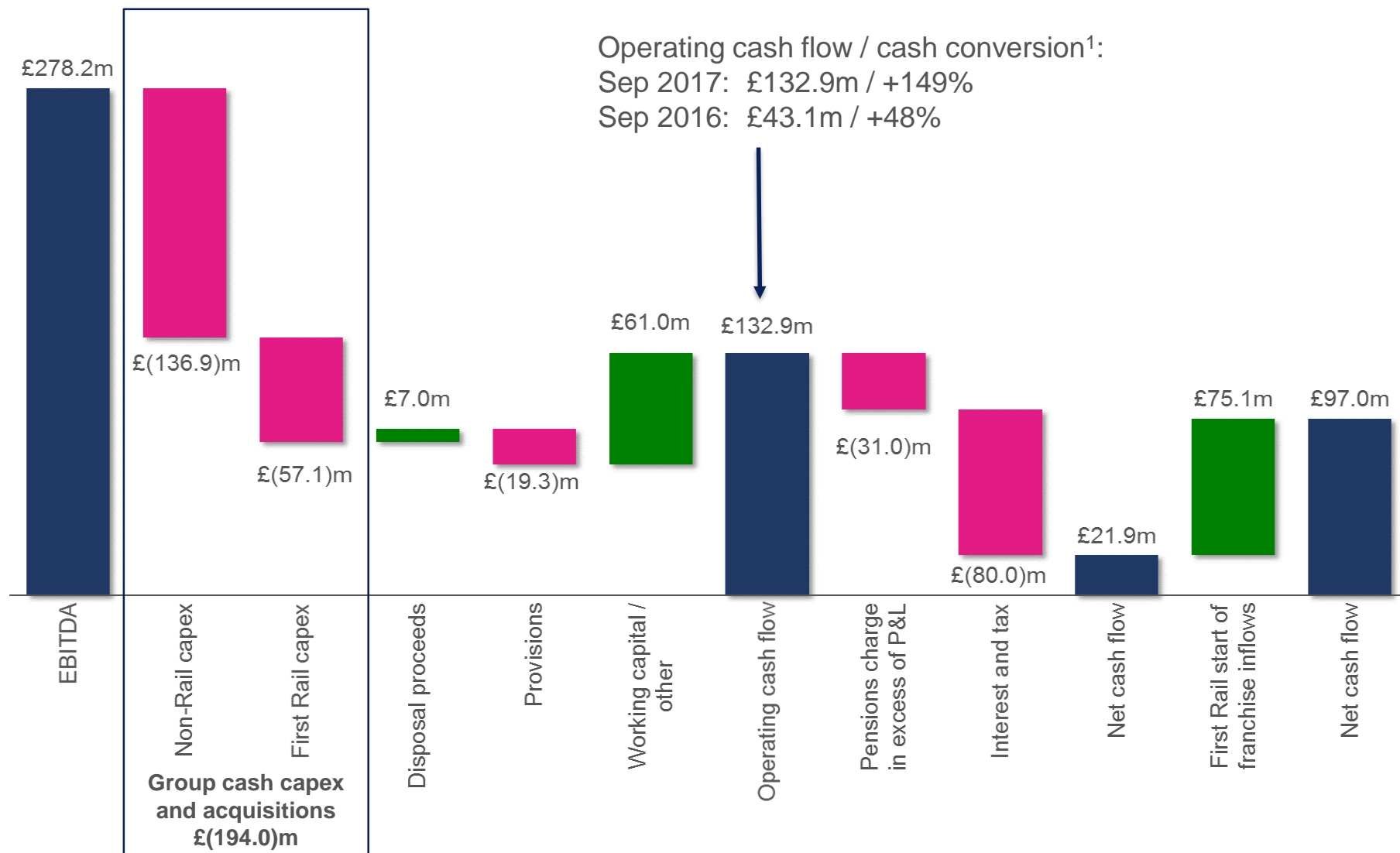
¹ Before amortisation charges and certain other items

Income statement – continued

£m	Sep 2017	Sep 2016	Change	Change (constant fx)	
Adjusted¹					
Operating profit	89.4	89.0	+0.4%	(9.1)%	
Net finance costs	(58.9)	(67.1)	(12.2)%		→ Reduction due to lower net debt and lower interest rates
Profit before tax	30.5	21.9	+39.3%	+2.0%	
Tax	(9.2)	(5.5)			→ Higher effective tax rate as previously guided
- Effective tax rate %	30.0%	25.1%	+490bps		
Non-controlling interests	1.1	(0.1)			→ Impact on minority of one period of SWR franchise
Attributable profit	22.4	16.3	+37.4%	+0.4%	
EPS p	1.9p	1.4p	+35.7%	flat	

¹ Before amortisation charges and certain other items

Net cash flow (£m)



¹ Operating cash flow divided by Group adjusted operating profit



- Strong liquidity and stable financing position with net debt of £1,179.9m
 - Headroom under committed facilities plus free cash: £844.1m (Mar 2017: £941.1m)
 - Net debt: EBITDA ratio 1.7x (H1 2016: 2.4x)
 - Long term facilities in place – average maturity 3.2 years (Mar 2017: 3.6 years)
 - Ratings from Standard & Poor's and Fitch currently BBB- with stable outlook
 - £800m Revolving Credit Facility refinancing next due July 2021
 - \$50m private placement notes repaid in May 2017 with the final \$50m repaid in Oct 2017
 - Next bond maturity Sep 2018
- Pension deficit £296.2m decreased by £62.3m (Mar 2017: £358.5m) due to a higher real discount rate in the UK and favourable fx movements
- Successfully consolidated assets in three UK local government pension schemes into one in the period



Tim O'Toole

Chief Executive

Business review



- Fourth year of 'up or out' bidding strategy to deliver higher returning contract portfolio



- 5.3% average price increases on 'at risk' business



- 83% retention rate on 'at risk' business (94% overall)



- Good operational start up to school year, despite scale of ongoing driver recruitment challenge



- Business now in shape to augment our market leadership position through organic growth and bolt-on M&A, while delivering further cost efficiencies



- First Transit continues to grow and respond to changing opportunities
 - 14 new contracts and 94% retention rate in the period



- Growth partially offset by impact of hurricanes especially on Puerto Rico and costs associated with driver shortages



- Expect to restore margins in the second half



- No change to our long term confidence in the portfolio or overall trajectory



- Currently deriving most impact from new pricing and yield tools in short haul markets



- Greyhound Express LFL growth +7.8%



- Generated growth sufficient to offset weak demand for long haul, where budget airlines' fuel cost advantage is most significant – and a slowdown in US South West traffic



- Adapting our business to reflect these changing market dynamics
- Rationalised interline partnership in US North East
- Process underway to eliminate further uneconomic routes in British Columbia, Canada



- Encouraging return to LFL revenue growth in the face of uncertain industry conditions



- Each bus company is delivering a programme of actions tailored to their local conditions



- Mix of network changes, fare adjustments, mobile and contactless ticketing, depot rationalisations and other cost reductions for each area



- Improved divisional contribution expected in second half from stabilised revenue and accelerating cost efficiencies
- Targeting investment only in markets where our local authority partners recognise the economic and social value of successful bus services



- LFL passenger revenue growth increased to 3.2%; margin improvement principally benefiting from revenue performance and cost efficiencies



- Significant capacity expansion on all of our franchises underway



- GWR: 93 Hitachi Intercity Express Trains entering service through to end 2019



- TPE: 220 brand new carriages begin arriving in 2018, providing an additional 13 million seats a year by end 2020



- SWR: 90 new trains increasing capacity by 52,000 extra seats through the morning and evening peak by end 2020

- Confident that combining our expertise with disciplined bidding creates value for passengers, shareholders and the taxpayer



- Solid trading and strong cash performance in the period



- Confident that the Group will make further progress and deliver substantial cash generation for the full year



- Continue to progress our plans to enhance the experience of our customers, and create value for shareholders, commensurate with our leading market positions and scale



FirstGroup plc **Half-yearly results**

For the six months
to 30 September 2017

Tuesday 14 November 2017





Appendices

Financial results

£m	Sep 2017	Sep 2016	Change
Revenue	2,771.3	2,564.7	+8.1%
EBITDA ¹	278.2	251.7	+10.5%
EBITDA margin %	10.0%	9.8%	+20bps
Operating profit ²	89.4	89.0	+0.4%
Operating profit margin %	3.2%	3.5%	(30)bps
Net finance costs	(58.9)	(67.1)	(12.2)%
Profit before tax ²	30.5	21.9	+39.3%
Non-GAAP adjustments	(32.4)	(10.8)	(200)%
(Loss)/profit before tax	(1.9)	11.1	n/m
Tax	2.9	(2.0)	n/m
Profit after tax	1.0	9.1	(89.0)%
Basic EPS p	0.2p	0.7p	(71.4)%
Adjusted EPS p	1.9p	1.4p	+35.7%

¹ Adjusted operating profit less capital grant amortisation plus depreciation

² Before amortisation charges and certain other items

Divisional performance

	Revenue		Operating profit ¹		Operating margin ¹	
	Sep 2017	Sep 2016	Sep 2017	Sep 2016	Sep 2017	Sep 2016

£m						
First Student	763.1	719.5	14.8	14.0	1.9%	1.9%
First Transit	536.4	482.5	20.9	30.0	3.9%	6.2%
Greyhound	358.8	333.4	23.5	25.8	6.5%	7.7%
First Bus	428.2	426.1	15.8	13.5	3.7%	3.2%
First Rail	677.4	595.8	31.1	22.1	4.6%	3.7%
Group items	7.4	7.4	(16.7)	(16.4)		
Total	2,771.3	2,564.7	89.4	89.0	3.2%	3.5%

\$m ²						
First Student	982.8	1,004.5	18.1	26.2	1.8%	2.6%
First Transit	692.0	663.6	26.7	41.4	3.9%	6.2%
Greyhound	463.0	457.5	30.5	34.3	6.6%	7.5%
North America	2,137.8	2,125.6	75.3	101.9	3.5%	4.8%

¹ Before amortisation charges and certain other items

² US dollar amounts include Canadian Dollars converted at the exchange rates prevailing in either year



\$m	Sep 2017	Sep 2016	Change
Revenue	982.8	1,004.5	(2.2)%
Operating profit ¹	18.1	26.2	(30.9)%
Margin %	1.8%	2.6%	(80) bps

\$m	Revenue	Operating profit ¹
Sep 2016	1,004.5	26.2
Operating days	(16.1)	(7.5)
Weather	8.6	4.9
Pricing above inflation	10.8	10.8
Net growth	(45.9)	(4.4)
Management cost actions	-	5.0
Pay above inflation	-	(7.0)
Inflation / FX / other	20.9	(9.9)
Sep 2017	982.8	18.1

¹ Before amortisation charges and certain other items



\$m	Sep 2017	Sep 2016	Change
Revenue	692.0	663.6	4.3%
Operating profit ¹	26.7	41.4	(35.5)%
Margin %	3.9%	6.2%	(230) bps

\$m	Revenue	Operating profit ¹
Sep 2016	663.6	41.4
Growth / new business	11.6	0.9
Pay above inflation	-	(6.3)
Hurricanes	(1.1)	(6.1)
Inflation / FX / Other	17.9	(3.2)
Sep 2017	692.0	26.7

¹ Before amortisation charges and certain other items



\$m	Sep 2017	Sep 2016	Change
Revenue	463.0	457.5	+1.2%
Operating profit ¹	30.5	34.3	(11.1)%
Margin %	6.6%	7.5%	(90) bps

\$m	Revenue	Operating profit ¹
Sep 2016	457.5	34.3
Revenue	6.9	6.9
Cost inflation	-	(11.4)
Hurricanes	(1.3)	(0.8)
FX / management cost actions / other	(0.1)	1.5
Sep 2017	463.0	30.5

¹ Before amortisation charges and certain other items



£m	Sep 2017	Sep 2016	Change
Revenue	428.2	426.1	+0.5%
Operating profit ¹	15.8	13.5	+17.0%
Margin %	3.7%	3.2%	+50 bps

£m	Revenue	Operating profit ¹
Sep 2016	426.1	13.5
Revenue	6.1	6.1
Cost inflation	-	(14.0)
Depot closures and actions	(4.0)	8.9
Other	-	1.3
Sep 2017	428.2	15.8

¹ Before amortisation charges and certain other items



£m	Sep 2017	Sep 2016	Change
Revenue	677.4	595.8	+13.7%
Operating profit ¹	31.1	22.1	+40.7%
Margin %	4.6%	3.7%	+90 bps

¹ Before amortisation charges and certain other items

First Rail passenger revenue growth



Six months to	Sep 2017	Mar 2017	Sep 2016	Mar 2016
Great Western Railway (GWR)	1.6%	0.5%	(0.1)%	5.4%
TransPennine Express (TPE)	9.7%	7.1%	2.0%	5.5%
South Western Railway (SWR)	2.9%	n/a	n/a	n/a
Hull Trains	8.0%	8.2%	6.0%	13.5%
Total	3.2%	1.9%	0.7%	5.6%

- Like-for-like volume increased by 1.0% in six months to September 2017

Non-GAAP adjustments

£m	Sep 2017	Sep 2016
Amortisation charges	(32.0)	(28.5)
Gain on disposal of property	-	21.6
Restructuring and reorganisation costs	-	(4.2)
Ineffectiveness on financial derivatives	(0.4)	0.3
Other non-GAAP adjusting items	(0.4)	17.7
Total non-GAAP adjustments	(32.4)	(10.8)

Current diesel hedge position

Year to 31 March	UK			North America		
	2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
Annual volume (barrels 'm)	1.9	1.7	1.3	1.4	1.4	1.3
% hedged	89%	63%	26%	63%	38%	21%
Crude rate (\$/barrel)	\$60.14	\$54.86	\$49.80	\$56.37	\$49.80	\$49.57
Diesel rate (\$/barrel)	\$74.63	\$71.69	\$67.05	\$75.50	\$69.07	\$70.08
Equivalent cost per litre	37.1p	34.2p	31.4p	US 47.5c	US 43.4c	US 44.1c

	First Bus	First Rail	First Student	First Transit	Greyhound	Total
Annual volume (barrels 'm)	1.0	0.9	0.7	0.1	0.6	3.3

- Prices include crude and refining cost but exclude delivery margins, duty, taxes and BSOG
- Equivalent cost in pence per litre for UK also reflects FX hedges in place
- North America annual volume excludes c.2.0m barrels provided by customers or protected by contract escalators
- The decrease in expected annual volume consumption in 2019/20 reflects the end of the current GWR direct award

- Higher US Dollar compared to March balance sheet date:

	30 Sep 2017	31 Mar 2017	30 Sep 2016
Closing rate for the balance sheet US\$	\$1.35	\$1.25	\$1.30
Closing rate for the balance sheet CAN\$	\$1.67	\$1.67	\$1.71

- Lower US Dollar compared to prior year effective rate:

	6 months to 30 Sep 2017	Year to 31 Mar 2017	6 months to 30 Sep 2016
Effective rate US\$ earnings	\$1.27	\$1.29	\$1.45
Effective rate CAN\$ earnings	\$1.96	\$1.74	\$2.01

- "Certain" and "highly probable" foreign currency transaction exposures may be hedged at the time the exposure arises for up to two years at specified levels, or longer if there is a very high degree of certainty. The Group does not hedge the translation of earnings into the Group reporting currency (pounds Sterling), but accepts that reported Group earnings will fluctuate as exchange rates against pounds Sterling fluctuate for the currencies in which the company does business. During the year, the net cash generated in each currency may be converted by Group Treasury into pounds Sterling by way of spot transactions in order to keep the currency composition of net debt broadly constant

Net finance costs and taxation

Net finance costs, £m	Sep 2017	Sep 2016
Bonds	41.3	42.1
Bank borrowings	3.3	6.8
Loan notes	0.5	0.5
Senior unsecured loan notes	1.0	2.3
Finance lease interest	2.4	3.4
Notional interest on long term provisions	5.6	7.9
Notional interest on pensions	5.2	4.8
Investment income	(0.4)	(0.7)
Net finance costs	58.9	67.1

Taxation, £m	Sep 2017	Sep 2016
Current tax	0.8	1.8
Deferred tax	(3.7)	0.2
Tax (credit)/charge	(2.9)	2.0

Tax paid	7.1	5.1
----------	-----	-----

Tax rate on adjusted profit before tax	30.0%	25.1%
--	-------	-------

EBITDA by division

	Revenue		EBITDA ¹		EBITDA margin ¹	
	Sep 2017	Sep 2016	Sep 2017	Sep 2016	Sep 2017	Sep 2016

£m						
First Student	763.1	719.5	104.1	98.4	13.6%	13.7%
First Transit	536.4	482.5	31.4	38.6	5.9%	8.0%
Greyhound	358.8	333.4	40.1	43.2	11.2%	13.0%
First Bus	428.2	426.1	47.4	45.5	11.1%	10.7%
First Rail	677.4	595.8	70.9	41.4	10.5%	6.9%
Group items	7.4	7.4	(15.7)	(15.4)		
Total	2,771.3	2,564.7	278.2	251.7	10.0%	9.8%

\$m ²						
First Student	982.8	1,004.5	133.4	142.3	13.6%	14.2%
First Transit	692.0	663.6	40.2	53.3	5.8%	8.0%
Greyhound	463.0	457.5	51.9	58.3	11.2%	12.7%
North America	2,137.8	2,125.6	225.5	253.9	10.5%	11.9%

¹ Adjusted operating profit less capital grant amortisation plus depreciation

² US dollar amounts include Canadian Dollars converted at the exchange rates prevailing in either year

Total capital expenditure and acquisitions

	Cash		Fixed asset & software additions (including acquisitions)	
	Sep 2017	Sep 2016	Sep 2017	Sep 2016
First Student ¹	72.4	97.2	123.8	84.2
First Transit	9.2	6.9	9.4	5.6
Greyhound	14.4	14.9	11.6	6.8
First Bus	39.7	58.7	3.4	33.6
First Rail	57.1	28.5	56.5	22.8
Group items	1.2	0.3	1.2	0.3
Total	194.0	206.5	205.9	153.3

- In addition during the period we entered into operating leases for new vehicles in First Transit with capital value £nil (Sep 2016: £8.0m)

¹ Includes £2.9m cash and £1.6m fixed asset additions for the acquisition of Falcon Transportation, a Chicago-based provider of school and charter transportation services

Capital expenditure and acquisitions

£m	Sep 2017
Passenger carrying vehicles (PCV)	128.2
IT including transformation	1.7
Equipment	8.4
Facilities and depot development	2.5
Software	5.7
Acquisitions	2.9
Capital investment excl. First Rail	149.4
First Rail	56.5
Total capital investment¹	205.9
Net creditor movement	(11.9)
Gross cash capex & acquisitions	194.0

- Disciplined reinvestment in passenger carrying fleet continue
 - Capital allocation decisions focused increasingly on maintenance of existing asset portfolio and selected growth opportunities with good returns on incremental capital
 - Expect increased First Rail capex in 2018 and 2019, largely funded through franchise agreements
- Includes First Student acquisition of a Chicago-based provider of school and charter transportation services

¹ Including assets acquisitions

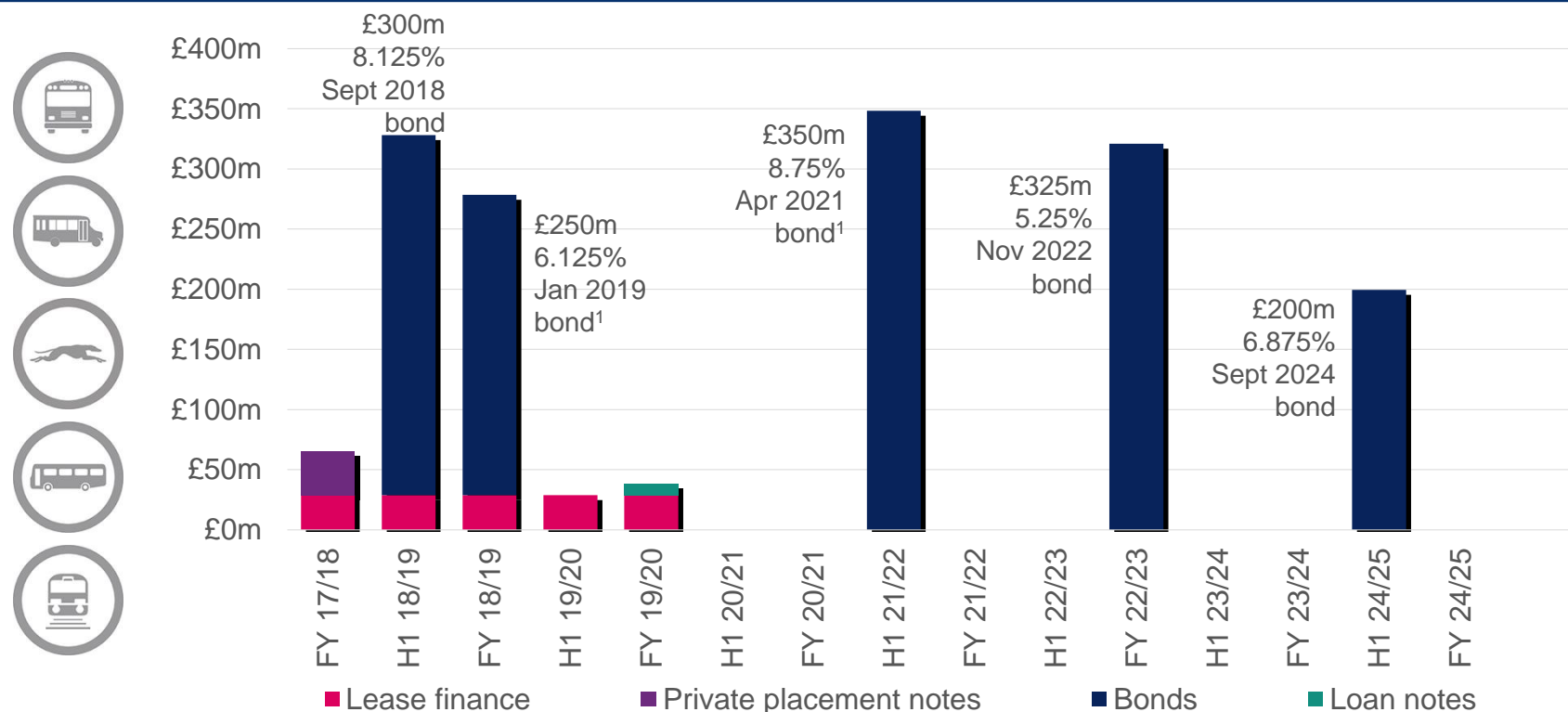
First Rail ring-fenced cash and bonds

First Rail ring-fenced cash, £m	Sep 2017	Sep 2016
GWR	243.1	194.6
TPE	54.6	33.4
SWR	86.1	-
Total	383.8	228.0

First Rail bonds, £m	Sep 2017	Sep 2016
GWR performance bond	10.0	10.0
GWR season ticket bond	28.4	28.8
TPE performance bond (old franchise)	-	4.4
TPE season ticket bond (new franchise)	2.5	2.2
TPE performance bond (new franchise)	15.0	15.0
TPE parent company support bond (new franchise)	84.4	84.4
SWR performance bond	10.5	-
SWR season ticket bond	53.7	-
SWR parent company support bond	30.7	-
Total	235.2	144.8

- Season ticket bond monies are included within First Rail ring-fenced cash
- Performance bonds are non-cash items

Debt profile



- Headroom under committed facilities plus free cash: £844.1m (Mar 2017: £941.1m):
 - £800m (Mar 2017: £800m) of undrawn under committed bank revolver expiring Jul 2021
 - Free cash of £44.1m (Mar 2017: £141.1m) excludes First Rail and other ring-fenced cash and deposits of £384.7m (Mar 2017: £259.8m)
- Average debt maturity 3.2 years (Mar 2017: 3.6 years)

¹ The 2019 and 2021 bonds have been swapped to floating rates and hence have a lower effective rate net of these swaps

£m	Deficit			Cash contributions			P&L charge ¹		
	Sep 2017	Mar 2017	Sep 2016	Sep 2017	Mar 2017	Sep 2016	Sep 2017	Mar 2017	Sep 2016
North America	(185.6)	(216.7)	(234.3)	13.3	14.0	9.6	5.3	9.9	4.6
First Bus	(108.6)	(139.8)	(263.4)	33.3	50.0	29.3	10.2	16.7	8.2
First Rail	(2.0)	(2.0)	(2.6)	11.1	21.9	10.4	11.2	21.7	10.4
Total	(296.2)	(358.5)	(500.3)	57.7	85.9	49.3	26.7	48.3	23.2

- Group deficit decreased by £62.3m principally due to a higher real discount rate in the UK together with favourable foreign exchange movements

¹ Service costs excluding interest for defined benefit schemes

Return on capital employed (ROCE)



	Group ROCE	Road divisions ROCE
As at 30 September 2016	7.1%	5.2%
Foreign exchange	1.2%	1.1%
ROCE at constant currency	8.3%	6.3%
Rail trading	0.3%	-
Tax rate / pensions / other	(0.7)%	(0.5)%
As at 30 September 2017	7.9%	5.8%



Certain statements included or incorporated by reference within this presentation may constitute “forward looking statements” in respect of FirstGroup plc's operations, performance, prospects and/or financial condition. Such statements are based on our current expectations and beliefs concerning future events and are subject to a number of known and unknown risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results referred to in these forward looking statements. Such statements are also based on numerous assumptions regarding our present and future strategy and the environment in which we operate, which may not transpire. We undertake no obligation to update any forward looking statements contained in this presentation or any other forward looking statements we may make.



Nothing in this presentation should be construed as a profit forecast. Past performance cannot be relied upon as a guide to future performance and persons needing advice should consult an independent financial adviser.



Nothing contained in this presentation is intended to constitute an invitation or inducement to engage in investment activity for the purposes of the prohibition on financial promotions in the UK Financial Services and Markets Act 2000. In making this presentation available, FirstGroup plc makes no recommendation to buy, sell or otherwise deal in shares of FirstGroup plc or in any other securities or investments whatsoever and you should neither rely nor act upon, directly or indirectly, any of the information contained in this presentation in respect of any such investment activity.

