

2020 WINTER TRADING UPDATE AND SALE PROCESS FOR NORTH AMERICAN CONTRACT BUSINESSES UNDERWAY

FirstGroup plc, a leading provider of transport services in the UK and North America, today provides an update on the portfolio rationalisation strategy and on trading since the end of September 2019.

Progress with portfolio rationalisation

- Board has commenced formal process to sell our North American contract businesses First Student and First Transit, with significant interest expressed by a range of potential buyers
- First Bus and First Rail to form the core of the ongoing Group, following the conclusion of the North American transaction processes

Recent trading summary

- Group revenue +7.5% YTD, or +6.0% in constant currency¹
- Trading trends in First Student, First Transit and First Bus broadly similar to first half, with industry cost inflation and volatile passenger demand largely mitigated by management action and growth. Greyhound's trading environment remains difficult, though this has been offset by a stronger First Rail financial performance following GWR's successful introduction of new trains and a major timetable upgrade
- We have seen no significant impact from the coronavirus (COVID-19) outbreak to date, however we are monitoring the situation closely while planning for a range of scenarios including changes to current government guidance or policy
- Overall, based on the above the Group's outlook for adjusted operating profit (pre-IFRS16) in constant currency for the year to 31 March 2020 is in line with our expectations, though we are mindful that the final month of the year is traditionally a significant trading period for the Group

Increase/(decrease) vs comparable period, in constant currency ¹	End Sept 2019 – end Feb 2020	Year to date (YTD)
First Student revenue	+4.0%	+4.1%
First Transit revenue	+5.7%	+6.6%
Greyhound like-for-like revenue	(9.2)%	(3.5)%
First Bus like-for-like passenger revenue	+2.0%	+1.8%
First Rail like-for-like passenger revenue	+3.8%	+4.4%

Commenting on today's announcement, FirstGroup Chairman David Martin said:

"We have now commenced a formal process to sell our North American contract businesses. We firmly believe that a sale of these assets is the best way to unlock material value for all FirstGroup shareholders, having completed a detailed review and analysis with advisers appointed by the Board to explore all options."

"FirstGroup's bus and rail businesses in the UK will play a key role in supporting the Government's plans to stimulate economic growth throughout the country while reducing the environmental impact of transport. With the emphasis on building a stronger business for the future, they will continue to benefit from the improvement programmes already underway as well as from the Government's infrastructure spending plans announced earlier this year."

"Despite near-term uncertainty in the wider markets, there remains a fundamental need for people to travel safely and conveniently for business, education, social or recreational reasons which is essential to sustainable and thriving economies and communities. We are resolutely focused on delivering our plans – including the portfolio rationalisation strategy – in the best interests of all shareholders."

Commenting, FirstGroup Chief Executive Matthew Gregory said:

"Our market leading businesses have attractive long term prospects and during the period we have continued to execute the clear commercial strategies that will capture their potential and create value, underpinned by our comprehensive cost efficiency programmes. Notwithstanding the challenging trading environment, we have made good progress towards our objectives to improve services for customers and unlock the inherent value within the Group."

"In First Student and First Transit we have well-invested long term contract businesses with excellent customer relationships, strong management teams and opportunities for growth, and we look forward to seeing these characteristics being reflected in the outcome of the formal sale process that is now underway."

First Student and First Transit sale process

The Board of FirstGroup today announces that it has begun a formal sale process to exit our North American contract businesses, First Student and First Transit. Significant interest in the North American contract businesses has been received, and Rothschild & Co, together with Goldman Sachs and JP Morgan Cazenove, have been appointed to lead a sale process. Under the leadership of our Chairman, David Martin, the Group has now undertaken thorough preparations for a carve-out and sale of First Student and First Transit. This work has involved expert third party consultants and advisers who have helped design the optimal structure to be implemented and put together the detailed materials and reports appropriate for a transaction of this scale.

First Student and First Transit are market leaders in the provision of core contracted public transportation services across 40 US states and seven Canadian provinces. The businesses have long term trusted relationships with a high quality, diversified client base of principally schools, universities and other public sector entities, generating stable predictable revenues. In addition, the businesses benefit from their substantial scale, best-in-class operating track records and highly experienced management teams. Both businesses are run in a decentralised way and will be capable of clean separation from FirstGroup's other operations.

Financial and operational highlights of First Student and First Transit (as of 31 March 2019) include:

- Reported combined revenues of \$3.8 billion for the financial year ended 31 March 2019, of which \$2.4 billion is attributable to First Student;
- Reported combined EBITDA for the same period of \$558 million of which \$465 million is attributable to First Student;
- A wholly-owned fleet of 43,000 revenue-producing vehicles in First Student, with an average fleet age under seven years, servicing more than 1,000 client contracts, out of 460 locations.

Following careful evaluation, the Board believes that upon completion, the sale of First Student and First Transit will unlock material shareholder value for all FirstGroup shareholders.

The sale process will be conducted with the objectives of optimising value for FirstGroup shareholders and minimising uncertainty for our customers and employees. The sale of First Student and First Transit will be subject inter alia to FirstGroup shareholder approval, which the Board anticipates would lead to completion of the process during the second half of the upcoming financial year.

First Bus and First Rail in the UK

On conclusion of the North American divestments the Group will become a UK-based transportation provider with bus and rail operations at the core of its business. Accordingly, there are no further plans to pursue a separation or sale of First Bus. We will continue to capture the benefits of our improvement programmes and strong market positions to deliver enhanced performance in First Bus, while playing a key role in delivering the benefits of the UK Government's announced plans to invest in improving bus networks and sustainability across the country. Public transport has a unique role to play in transitioning to a carbon neutral society and, with a leading position in low emission vehicles and deep local authority relationships, we have a strong platform for the future. We will continue to actively manage First Rail's existing portfolio of rail franchises to deliver sustainable benefits for passengers, shareholders and our other stakeholders. We also look forward to the publication of the Williams review, which we hope will provide much anticipated clarity around the future shape of rail franchising.

Divisional updates

In our largest business **First Student** we are benefiting from the pricing and contract retention rates we achieved in last summer's bid season, as well as from three acquisitions made in the year. Our key bidding metrics are on track with our objectives at this stage of the current bid season, and we are pleased that our strong safety record and consistently high customer service scores continue to result in additional contract wins in the competitive market. We remain confident that First Student will deliver further revenue growth and robust cash flow and returns from its market leading multi-year contract portfolio for the full year, despite the ongoing wage inflation and driver shortages resulting from the strength of the US employment market noted previously.

First Transit continues to deliver revenue growth from pricing, new contract opportunities throughout its portfolio and some pass-through revenue. We continue to expect that the cost efficiency programmes underway in the division will deliver improvements in the second half margin relative to the prior year, notwithstanding the previously noted cost headwinds faced by the division this year, being driver shortages in certain areas, changing business mix and the two legacy legal judgments in the first half of the year.

Greyhound's trading environment remains challenging, with further reductions in fuel price which typically makes travel by car more cost-competitive, continuing reductions in immigration-related demand in the southern border states and intensifying competition in several markets from both coach and low-cost airline operators. Despite further management action including commercial initiatives, mileage reductions and profit on certain property sales, this difficult demand environment continues to drop through to Greyhound's profitability. Negotiations in respect of the Greyhound sale process are ongoing and we will update the market, as appropriate, when they conclude.

As previously noted, all of our North American businesses continue to be affected by the industry-wide hardening of the motor claims insurance environment. The long term provision required to be held in respect of such claims is also sensitive to the market based discount rate used in the actuarial calculation, which has come down sharply since the half year end.

First Bus like-for-like passenger revenue growth was +2.0% in the period with higher revenue per mile from our fare and network optimisation actions. Like-for-like passenger volumes were (1.7)% in the period, reflecting the economic and political uncertainty and poor weather in the UK during the period. We continue to prioritise investment in local markets where stakeholders support our ambitions to deliver thriving and sustainable bus services, and we are pleased that there is a growing recognition at all levels of government that the bus has a huge role to play in achieving social and environmental ambitions and improving local economies. In particular we welcome the Government's announcement in February of a new £5 billion, five-year funding package which will include support for simpler fares, thousands of new green buses, improved routes and higher frequencies. From a strategic perspective our priority is to ensure First Bus is a more effective and efficient business and our focus is on achieving improved performance and a stronger bus division for the future. We therefore continue to actively address our cost base through our comprehensive efficiency programme, the benefits of which we expect will be more evident in our next financial year.

First Rail's like-for-like passenger revenue growth was +3.8% in the period, with the financial performance in each of our rail operations continuing to vary considerably. GWR's operational and financial performance has exceeded our expectations in the period, following our successful introduction of a major timetable upgrade and new train fleets. We continue to make progress on discussions with the Department for Transport (DfT) to extend our operation of GWR. Since our First Trenitalia partnership commenced operations in December, our new Avanti West Coast franchise has performed broadly in line with our expectations. We were pleased with Government's announcement that the HS2 programme will proceed, and we look forward to performing the role of 'Shadow Operator' to the programme. TPE experienced difficult operating conditions during the period, with the delayed delivery of new train sets and network issues affecting our performance, and which may have a consequential impact on future passenger growth. SWR's performance continues to be challenged principally by deep-rooted Network Rail infrastructure problems outside of our control. We believe the best way forward for SWR is a new contract that reflects a more realistic view of these issues and has an appropriate balance of risk and reward for our shareholders in that context, and we are currently negotiating on this basis with the DfT. We were pleased that in the most recent independent National Rail Passenger Survey (NRPS) all of the rail operations we controlled in the period achieved year-on-year improvements in overall satisfaction, with GWR being a standout performer.

Investor information

A conference call for investors and analysts will be held at 9:00am today. Please call +44 (0) 20 7725 3354 in advance of the call to register and receive joining details. A playback facility will be available together with a pdf copy of this announcement at www.firstgroupplc.com/investors.

The Group is scheduled to announce results for the year to 31 March 2020 on Thursday 28 May 2020.

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Notes

¹ Changes 'in constant currency' throughout this announcement are based on retranslating prior period foreign currency amounts at current period rates. Group and Rail revenue growth includes the Avanti West Coast rail franchise.

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

Unless otherwise stated, all financial figures for the 'period' include the results of the First Rail business for the 20 weeks to 1 February 2020 and the results of all the other businesses for the five months to 22 February 2020, with increases or decreases compared to the comparable period in the prior year. All 'year to date' or 'YTD' financial figures include the results of the First Rail business for the 44 weeks to 1 February 2020 and the results of all the other businesses for the eleven months to 22 February 2020, with increases or decreases compared to the comparable period in the prior year. References to 'like-for-like' revenue adjust for changes in the composition of the divisional portfolio, holiday timing, severe weather and other factors, for example engineering possessions in First Rail, that distort the period-on-period trends in our passenger revenue businesses. Full year results for 2020 will include

the results and financial position of First Rail for the year to 31 March 2020 and the results and financial position of all the other businesses for the 52 weeks ended 30 March 2020.

Figures presented in this announcement are not audited. Certain statements included or incorporated by reference within this announcement may constitute 'forward-looking statements' with respect to the business, strategy and plans of the Group and our current goals, assumptions and expectations relating to our future financial condition, performance and results. By their nature, forward-looking statements involve known and unknown risks, assumptions, uncertainties and other factors that cause actual results, performance or achievements of the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Shareholders are cautioned not to place undue reliance on the forward-looking statements. Except as required by the UK Listing Rules and applicable law, the Group does not undertake any obligation to update or change any forward-looking statements to reflect events occurring after the date of this announcement.

About FirstGroup

FirstGroup plc (LSE: FGP.L) is a leading provider of transport services in the UK and North America. With £7.1 billion in revenue and around 100,000 employees, we transported 2.2 billion passengers last year. 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 1.6 million passengers a day, and First Rail is one of the country's largest and most experienced rail operators, carrying 345 million passengers last year.

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