
FIRSTGROUP PLC

AGREEMENT TO ACQUIRE BUS OPERATOR RATP LONDON

FirstGroup plc (the 'Group') is pleased to announce that it has signed an agreement to acquire RATP Dev Transit London Limited and its subsidiaries ('RATP London') from RATP Développement SA ('RATP Dev') for an enterprise value of £90 million (the 'Acquisition').

The Acquisition will see the Group enter the London bus market with a strong position and will further grow and diversify the Group's revenue. RATP London is one of the principal bus operators in the capital, with a c.12% market share, comprising:

- 10 depots across Central and West London (four owned and six leased);
- a fleet of c.1,000 buses of which a third are fully electric;
- c.3,700 employees over 80% of whom are drivers;
- c.90 Transport for London ('TfL') route contracts, typically of seven-year term; (weighted average remaining contract life of 3.3 years)
- revenues of £271m for the year ended 31 December 2023; and
- an experienced management team with a proven track record of developing and implementing a comprehensive turnaround plan that includes enhanced bid discipline and improved operational and cost performance

The enterprise value is underpinned by c.£100m of physical assets including freehold property of c.£50m.

The Acquisition will be financed with £45 million from the Group's existing cash reserves and the assumption of RATP London's asset backed vehicle finances leases (c.£45m).

Following completion of the Acquisition, the Group anticipates:

- the Acquisition will be broadly earnings neutral in FY 2025 and FY 2026; onerous contract provisions totalling c.£40-50m will be utilised over several years;
- as the route contract portfolio evolves over the next five years, annual revenues are expected to grow to £300-350m, with operating margins in line with historical London levels of c.6-7%;
- looking ahead, in addition to the measures included in the current turnaround plan, the Group has identified a number of potential synergies that could further enhance profitability;
- operating cash outflows of c. £30m, after bus operating lease payments and capex, in the first two years of ownership, following which the business is expected to be operating cash positive from FY 2027 onwards;
- RATP London's current management team will transfer with the business and are expected to be retained post-acquisition.

The Acquisition is subject to French government approval (in its capacity as the ultimate owner of the business) and is conditional on TfL consent to the change of control. The Group anticipates completion of the Acquisition in H1 Calendar Year 2025.

Graham Sutherland, FirstGroup Chief Executive Officer said:

"This is a significant acquisition for the Group that will diversify our portfolio and materially grow our earnings in the medium term. It allows us to enter the London bus market at scale and will also bolster our credentials as we participate in future franchising opportunities across the UK.

"We look forward to continuing to build on our relationship with TfL and welcoming RATP London's employees into the Group, to continue the transformation of the business and to capitalise on the growth potential in the London market."

Investor & Analyst webcast

A webcast for investors and analysts will be held at 09:00 (GMT) today. To request the webcast details, please email corporate.comms@firstgroup.co.uk. To access the presentation slides, together with a pdf copy of this announcement, go to www.firstgroupplc.com/investors. A recording of the webcast will also be available on the website in due course.

Notes to Editors

Operational and financial overview

RATP London was formed through the consolidation of London United, London Sovereign and London Transit bus companies. RATP London is most prominent in West London, and also operates in the north-west and south-west of the capital.

RATP London has c.3,700 employees and operates a fleet of c.1,000 buses out of four owned and six leased depots, as well as a number of smaller ancillary properties, in Central and West London. The four freehold depots have existing use value of c.£50m. The freehold depots are located in Fulwell, Hounslow, Shepherds Bush and Stamford Brook, with leasehold depots in Edgware, Harrow, Hounslow, Park Royal, Tolworth and Westbourne Park.

The majority of the senior management team joined the company over the last three years and have developed and implemented a comprehensive turnaround plan for the business. Good progress has been made since the implementation of the plan, both in enhanced bid discipline with c.30 routes rebid over the past two years, including the early termination of loss making routes at contract review dates as well as improved operational performance and cost control, and workforce stabilisation. This improvement in performance can be seen in the TfL Q2 FY 2025 Bus Operator League Tables, with the three subsidiaries occupying first, second and fourth place in the league table for “operated mileage before non-deductible losses”.

RATP London operates c.90 routes on behalf of TfL. These route contracts typically have a seven year maturity with on average, c.13 contracts in the portfolio renewed each year. As the route contract portfolio evolves over the next five years, the Group anticipates that annual revenues will grow to £300-350m, with operating margins in line with historical norms in London of c.6-7%.

RATP London reported group revenues of £271m for the year ended 31 December 2023. The Group anticipates that the Acquisition will be broadly earnings neutral in FY 2025 and FY 2026, after the utilisation of onerous contract provisions of c.£40-50m that recognise contracts entered into prior to 2022 and were subsequently impacted by material labour market cost increases. The Group will recognise these provisions on acquisition. The onerous contract loss provision release matches the losses being incurred on these contracts and will result in a broadly neutral impact in the Group's profit and loss accounts.

Buses are currently acquired under operating leases, which the Group will review going forward. The Group anticipates aggregate capital expenditure of c.£40-50m which excludes bus acquisitions, over the first three years of ownership relating primarily to depot electrification, charging infrastructure, existing fleet replacement batteries, and a small amount of spending on other non-current assets. The capex forecast excludes the buses that may be acquired under operating leases and this will be reviewed in the context of the Group's wider approach to electrification.

TfL is targeting an entirely zero-emission bus fleet by 2034 at the latest and electrification is now compulsory in the bidding process. RATP London has been an early mover in bus fleet and infrastructure electrification, with a third of the fleet electric. The Group will seek to capitalise on electrification expenditure efficiencies through its existing capabilities and arrangements.

The Group anticipates operating cash outflows of c. £30m after bus operating lease payments and capex, in the first two years of ownership, with the business expected to be operating cash generative from FY 2027 onwards.

Looking ahead, in addition to the measures included in the current turnaround plan, the Group has identified a number of synergies that could further enhance profitability. These include fuel and electricity pricing, insurance, on bus advertising, materials contracts, fleet purchasing, vehicle sale benefits through the use of the Group's Ensignbus business, and through the merging of some back-office functions. The Group will also consider the future financing of electric buses, including the potential benefits of bringing electric bus batteries into its joint venture with Hitachi Zero Carbon.

Impact on the Group's FY 2025 and FY 2026 financial outlook

Should the Acquisition complete in the fourth quarter of the Group's financial year ending March 2025, it is anticipated that its FY 2025 net capital expenditure will be c.£125m and year-end adjusted net debt will be c.£110m. The Group will also recognise additional IFRS16 lease liabilities of c.£60m in FY 2025.

In FY 2026, RATP London is anticipated to make a small contribution to the First Bus adjusted operating profit, at a lower margin, and the Group's net capital expenditure is expected to increase to c.£125m, with the majority of expenditure in First Bus electrification. There will be an increase in the Group's interest cost of c.£6m, including IFRS 16, relating to the Acquisition, and the Group's FY 2026 year-end Adjusted net debt is expected to be c.£130m.

Share Purchase Agreement terms

Under the terms of the Share Purchase Agreement ('SPA'), FirstGroup plc will acquire, through its wholly-owned subsidiary, First Bus Holdings Limited ('First Bus'), the entire issued share capital of RATP Dev Transit London Ltd and its three operating subsidiaries, London Transit Limited, London Sovereign Limited and London United Busways Limited, from RATP Dev UK Ltd (the 'Seller'), a wholly-owned subsidiary of RATP Dev. The consideration will be paid in full on completion, subject to a normal post-completion true-up process. The entire debt of RATP London will be assumed or repaid by the Seller's group prior to completion, apart from the debt relating to hire purchase and lease finance obligations (projected to be c.£45m as at 31 December 2024) which are expected to remain with RATP London at completion.

The Group has provided a parent company guarantee to underpin the obligations of First Bus under the SPA, and similarly the Seller's parent, RATP Dev, guarantees the obligations of the Seller. The SPA includes a customary suite of warranties and indemnities, subject to caps and limitations as appropriate.

The Seller is required to carry on operating and funding the business in line with past practice in the period to completion. A limited suite of transitional services will continue to be provided by the Seller and its group for a short period post-completion under the terms of a Transitional Services Agreement ('TSA'). Satisfaction of the conditions is subject to a longstop date of 30 April 2025. The current management team will transfer with the business and are expected to be retained post-acquisition.

London bus market¹

London is a £2.1bn bus market, accounting for around 46% of the entire UK bus market. There are c.9,000 buses in London, with the market primarily served by six major operators.

Bus patronage is expected to continue to recover back to pre-Covid levels, supported by modest population growth across London, further growth in tourist volumes, continued declines in car utilisation and investment in the expansion of the bus network. TfL's Business Plan expects bus patronage to grow at c.4% per annum between 2025 and 2027, recovering fully to pre-Covid levels by 2027.

Looking at modal share, despite a slight shift towards the London Underground and more recently, suburban rail networks, bus remains the primary mode of transport within London, with an average of 192 journeys per capita in 2023 (accounting for >50% of all journeys made).

The size of the London bus network has also been resilient, with a broadly stable number of network miles operated between 2012 and 2020, and only a very modest decline between 2020 and 2024. This reflects the consistent levels of funding allocated to support operators, with long-term funding growth of c.3% per annum between 2004 and 2023 demonstrating TfL's commitment to bus. In 2023 Bus accounted for approximately 25% of total TfL operating expenditure (equivalent to £2.1bn per annum).

Overview of TfL contracts

London bus operations are entirely regulated by TfL, with each individual route forming a contract which is bid for by authorised private sector operators. TfL decide the contract specifications for a given bus route, control ticket prices and collects passenger revenue. Operators own the buses and depots, and source and pay drivers to run routes. The proximity of the line of route to the operator's depot and staff changeover facilities is therefore key to maximising efficiency and being competitive on bid price.

Individual route contracts are tendered competitively by TfL, generally over seven-year terms, resulting in a franchising model where there is minimal risk of losing large parts of the business at one time, and with a view to full decarbonisation of the fleet.

The route contracts bear no revenue risk on the base price bid. Inflation is allowed for based on 85% of revenue against which CPI is applied, and TfL assuming 15% of bus operator cost base does not inflate.

TfL is entitled to make deductions for lost mileage (at a specified rate per mile) where caused by reasons within the operator's reasonable control (such as missing drivers or mechanical breakdown), and fares payment irregularities (i.e. underpayment by passengers). Operators are not penalised for lost mileage that is not within their control, for example traffic or roadworks delays.

In addition, operator performance is measured and incentivised / penalised through quality of service indicators within the contracts, known as Quality of Service Indicators ('QSIs'). Under the QSI regime, bonus payments and liquidated damages are based on the operator's performance against a defined minimum performance standard of Excess Wait Times ('EWT') or a minimum percentage of "On-Time" services. Bonuses are earned up to an annual maximum 15% of contract payments (less any deductions for lost mileage) (the 'Contract Sum') for good performance, with liquidated damages for poor performance capped annually at 10% of the Contract Sum.

¹ Source: TfL data

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This announcement contains inside information and the person responsible for publishing the announcement is David Blizzard, Company Secretary.

Notes

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

Forward-looking statements

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. No statement in this announcement should be construed as a profit forecast for any period. 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 private sector provider of public transport services. With £4.7 billion in revenue and around 30,000 employees, we transported almost 2m passengers a day in FY 2024. We create solutions that reduce complexity, making travel smoother and life easier. Our businesses are at the heart of our communities and the essential services we provide are critical to delivering wider economic, social and environmental goals. Each of our divisions is a leader in its field: First Bus is one of the largest regional bus operators in the UK, serving more than 20% of the population in the UK with a fleet of around c.4,800 buses, and carrying more than a million passengers a day. First Rail is one of the UK's largest rail operators, with many years of experience running long-distance, commuter, regional and sleeper rail services. We operate a fleet of c.3,700 locomotives and rail carriages through three DfT contracted train operating companies: WCP (incorporating Avanti West Coast and West Coast Partnership Development), GWR and SWR) and two open access routes (Hull Trains and Lumo). We are formally committed to operating a zero-emission First Bus fleet by 2035, and First Rail will help support the UK Government's goal to remove all diesel-only trains from service by 2040. During FY 2024 FirstGroup was named as one of the world's cleanest 200 public companies for the fifth consecutive year and achieved Industry Top-Rated status for the first time with Sustainalytics. We provide easy and convenient mobility, improving quality of life by connecting people and communities. Visit our website at www.firstgroupplc.com and follow us @firstgroupplc on X.