

PASSENGER TRANSPORT

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NEWS, VIEWS AND ANALYSIS FOR A SECTOR ON THE MOVE

FirstGroup break-up likely after Apollo bid

Although group rejected initial takeover bid as 'opportunistic', major changes are expected - especially at under-performing UK bus division

▶ The break-up of FirstGroup is being predicted by City analysts and in the transport industry following a preliminary takeover bid from North American private equity investor Apollo Asset Management.

Although First rejected an initial approach from Apollo as "undervaluing the company" and "opportunistic", major changes are expected regardless of whether Apollo comes back with a successful bid.

Analysts said First's continued inability to deliver a substantial recovery across its US and UK divisions, following a £615m funds injection from shareholders in 2013 to pay down debt and invest

in new buses, indicated that the task of turning round multiple underperforming businesses was "too big and too complicated".

There has been a marginal improvement in the large US school bus division's performance during that period. However, the UK bus division has failed to approach the profit margins achieved by other transport groups, the Greyhound coach

"It will not be business as usual, when this reaches its conclusion"

business has faltered in the face of intense competition from airlines and cheaper car travel, and the finances of UK rail franchises are under pressure from lower than expected growth.

"Either way, it will not be business as usual, when this reaches its conclusion," a longstanding City analyst told *Passenger Transport*. At a minimum, Apollo is expected to exit the UK rail business due to political unease at private equity ownership of franchises. Sale or closure of the worst performing UK bus businesses is also predicted in order to create a higher potential UK bus division.

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LOOK, NO HANDS! ▶ We witnessed automated bus parking and other innovations in Paris last week. See pages 22-23

First's UK bus division set for major changes

Private equity owner better placed to take 'ruthless' actions

FIRST UK BUS OPERATIONS



UK BUS

► Significant action to reshape First's UK bus division will be considered in the wake of Apollo's interest in the company, industry sources have predicted.

One of the UK bus industry's most experienced managers told *Passenger Transport* that the case for substantially reducing the size of the division to create a more profitable and manageable business is highly likely to be revisited. He considered that private equity ownership of most, or all, of First UK Bus is a likely outcome, regardless of whether Apollo ultimately buys FirstGroup, due to the need for a new management perspective.

He recalled that in 2013 First had been looking to sell low profit and loss-making companies amounting to around half its UK bus business, but had not been

able to dispose of a large number of its worst performing operations which had distracted from the turnaround plan for the bus division and contributed to failure to meet profit targets.

"At that time, First correctly identified that they needed to sell half the UK bus business to concentrate resources on the areas where there was most potential, but they hit a situation where no one would buy the worst of those companies," he said.

"Then they weren't brave enough to close the ones they couldn't sell and tended to soldier on. They are now at a stage with UK bus where the type of turnaround needed is more likely to come from a private equity owner who can do the ruthless and objective thing out of the public gaze and without having to issue trading statements every three months." ■

FIRSTGROUP BREAK-UP

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Assuming FirstGroup sees off any new approach from Apollo, the minimum sales expected are a major, possibly all of, the UK bus business plus Greyhound, both of which require substantial capital investment and management attention. Greyhound could also face further pressure from rumoured competition from private equity-funded coach business Flixbus which analysts said First does not have the resources to compete with.

"Apollo will certainly have plans for what needs to be done,

and if the management retain control, investors will be wanting to know what Plan B is, to provide some value because the turnaround has not worked," the analyst said.

The bid for First was not unexpected in the transport industry. David Leeder, managing partner of Transport Investments Ltd and former FirstGroup plc main board director, said that the group's failure to pay a dividend for the past five years along with its declining share price meant it was effectively a "zombie business" whose function had been to meet pension fund liabilities, provide management salaries and repay debt rather than provide a return to investors.

He said that factors that were likely to have prompted a bid included forthcoming expiry of debt bonds, which provides the opportunity to refinance on cheap rates, and low UK rail growth, which could prove to be "the final nails in the zombie's coffin".

"If you look at what has changed to prompt a bid, those are the factors," he said. "If the rumours that they are in trouble and facing losses at South Western and TransPennine are true, that must place them in a very difficult position. If you look at their performance in other divisions, you have to ask how they can make it all work if the franchising market means they can't win contracts on profitable terms." ■

FIRST/TRENITALIA EXIT EAST MIDS CONTEST

Move aims to prioritise resources for West Coast

FRANCHISING

► FirstGroup/Trenitalia has withdrawn from the competition for the new East Midlands franchise. The companies said the decision meant they could prioritise resources on their joint venture bid for the West Coast Partnership franchise.

The companies' withdrawal from the East Midlands competition leaves Abellio, Arriva and incumbent operator Stagecoach on the shortlist to compete for the new contract which is due to begin next August.

It is the second time in less than a year that Trenitalia has withdrawn from a shortlist to concentrate on the WCP bid. Last August it withdrew from the competition for the new Southeastern franchise. ■

MANCHESTER BUS BOSS QUILTS

Medlicott quits First after just 15 months in role

PEOPLE

► It is understood that Phil Medlicott, managing director of First's Manchester bus business, has resigned and left the business for a new role elsewhere.

Medlicott joined First Manchester in January 2017 after 16 years with Stagecoach. Latterly he had been managing director of Stagecoach North East, a role he held between 2012 and 2016. Prior to this move he had been managing director of Stagecoach South East and before that MD at Stagecoach Warwickshire.

He has been succeeded in the managing director role at First Manchester by Ian Humphreys, latterly the operator's commercial director. ■