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## First looks to raise £100m from bus sell offs

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First Group has sought to reassure investors after issuing a profit warning relating to an "unacceptable" performance from its 8,000-vehicle UK bus business.

Chief executive Tim O'Toole told City analysts that the group expected to raise "in excess of £100m" from its programme to dispose of peripheral operations. This will reduce First's UK bus turnover by £130m-140m, approximately one eighth of the business.

The strategy represents a break with tradition at First Group, which refused to do deals under O'Toole's predecessor, Sir Moir Lockhead. However, since taking charge at the Aberdeen-based group, O'Toole has sold off isolated operations in King's Lynn, North Devon and Tottenham. The sales have raised less than £20m, meaning that the programme of disposals is only around one fifth complete.

"We have some perennial parts of our business that we have for many years been working to turn round and I think that we're getting to the point now in that we want to focus our attentions on the territories where the prospects are greater, and we can dedicate our management and our investment in those areas to generate greater returns," explained acting finance director Nick Chevis.

He added: "I think there's been certain parts of the portfolio that held back the returns in UK Bus. And have done for a period of time."

First warned that profit margins at the UK bus business may fall as low as 8% next year. The fares increase put in place by the business in January to help offset extraordinary costs increases of around £50m delivered a disappointing yield. Year-on-year revenue growth for the business currently stands at only 1.5%. In the north of England and Scotland, it was 0.4%.

"I guess the assumption was, and where we were wrong, is that putting in price increases, as has been done in the past, would stick and would allow us the transition to get to the new way of doing business," O'Toole conceded.

"I think it's a combination of the tougher economy hitting at a time when we were relying on that price increase to get us through. That told us, well, actually, you can't do that anymore. You've got to rebuild."

Asked what he thought passengers had done instead of travelling on First's buses O'Toole said: "I think they go to our competitors too often. There's been too much churn in our base business."

O'Toole said First Group had too often invited competitors into its territory by being too quick to cut mileage. He wants to mimic the strategy employed by some of First Group's rivals "who perform a bit more entrepreneurial at the local level, who keep their mileage up, and who are able to develop a bit more loyalty with their passengers".

"These are just the sort of things that Giles [Fearnley] has done in his past, and that's why I've brought him in, to bring this to First Group [as managing director of the UK bus business].

"We have a great footprint in the bus business - that's the great strength here. This is all to play for, we will turn this around, and we expect the margins to come back quickly."

■ News index ■ Front page

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### PASSENGER TRANSPORT

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