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FirstGroup chairman pressed to step down

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FirstGroup's longstanding chairman, Martin Gilbert, is facing calls to step down as the world's largest listed rail and bus company by revenue seeks to regroup after a series of profit warnings stemming from falling margins in two of its most important divisions.

Mr Gilbert has led the board since the company was founded in 1995 and oversaw its expansion from buses into trains and coaches – and from Scotland into the UK and the US, where it is the biggest operator of yellow school buses.

But a handful of top-10 shareholders believe he is not the right man to lead the FTSE 250 company as it changes focus from empire building to improving existing operations.

A number of investors fear Mr Gilbert may have overstretched himself by holding two demanding posts, as chairman of FirstGroup and chief executive of Aberdeen Asset Management.

One top 10 shareholder said: "We are planning to have talks with Mr Gilbert over whether it is appropriate for him to hold two big jobs.

"The performance of FirstGroup is worrying. The share price is down more than 30 per cent this year. He has been there a long time and maybe it is time for a change."

Both the US school bus business and the UK bus business – two of the top three divisions by operating profits – are in the midst of turnrounds after margins slid due to management mistakes and difficult economic conditions.

The crunch point could come in July at the company's general meeting, with some investors warning Mr Gilbert may then be pushed out or forced to fall on his sword as he becomes another victim of shareholder unrest.

One leading shareholder said: "Aberdeen is Mr Gilbert's main concern, which raises the question, 'Is he keeping his eye on the ball at FirstGroup?' "

But another shareholder said: “Mr Gilbert’s position is solid at Aberdeen because the company is doing well. FirstGroup is not doing well, so we have to look at that and ask ourselves why?” Aberdeen’s share price has risen 77 per cent in the past two years.

FirstGroup shares rose slightly this week following preliminary results in line with reduced expectations. But they have underperformed the FTSE 350 by 60 per cent over the past five years.

As well as overseeing management as it addresses the recent operational difficulties, the board is under pressure for an aggressive dividend policy that promises a 7 per cent payout increase this year despite high net debt and weak cash flow.

Gerald Khoo, an analyst with Espirito Santo, said last week: “FirstGroup faces so many challenges that it is sometimes difficult to know where to start. However, we believe that the key common theme is the group’s poor cash generation.”

Analysts at Bank of America Merrill Lynch wrote in a recent note: “We do not rule out board and management changes, and specifically we feel that buyside sentiment towards chairman Gilbert is poor.”

Investors remain supportive of Tim O’Toole, chief executive, who took the helm in late 2010 when the company’s founder, Sir Moir Lockhead, retired. But they hope a refreshed board, along with a new finance director due to start in September, will constitute a fresh start for the company.