

THE  TIMES

FirstGroup admits defeat and begs its shareholders for help



Profits at FirstGroup, Britain's biggest rail operator, have been hit by the West Coast Main Line franchise fiasco New scast/Ally Carmichael/FA

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It was a deal that was supposed to transform the old Grampian Regional Transport operator into a bus and train group that straddled the Atlantic — but yesterday FirstGroup's dreams lay in tatters after it was forced to go cap in hand to its shareholders to cut its debt mountain and keep its credit rating.

Announcing a deeply discounted fundraiser, Martin Gilbert, the last of the old guard who made a packet out of the 1980s privatisation of the Grampian from which FirstGroup emerged, removed himself as chairman.

The company blamed the economy and austerity for its problems — profits before tax in the year to March 31 slumped 36 per cent to £172 million.

But analysts said the real reason went deeper.

In 2007, under the management of Moir Lockhead, chief executive since the Grampian days, and Mr Gilbert, FirstGroup doubled in size with the £1.9 billion acquisition of America's Laidlaw school buses and Greyhound coaches group.

The deal took FirstGroup's debt from £650 million to £2.1 billion. Today, the debt mountain, which is costing half of the group's annual operating profits to service, has hardly budged and is running at just shy of £2 billion.

The revelation of the depth of FirstGroup's financial crisis comes just months after the Government tried to appoint it to the UK's most lucrative rail network — a move that was only halted after a legal challenge from Virgin, the incumbent.

Yesterday's rights issue will put question marks over FirstGroup's ability to win or retain train franchises.

The group runs and wants to continue running licences such as Great Western and Thameslink/Capital Connect. The last train company to go through such a big financial crisis was National Express. It now runs just one small rail franchise.

FirstGroup shares slumped more than 30 per cent yesterday after the company admitted that it was being forced to distribute new shares in a rights issue priced at just 85p — a 62 per cent discount to the 223½p price of the shares at Friday's close.

It is raising £585 million but only after paying £30 million or nearly 5 per cent of the gross proceeds to City advisers who would typically take only about 2 per cent.

In addition First admitted that there would be no final dividend, worth 16.05p last year. Nor would there be an interim dividend for the current financial year, worth 7.62p last year. Its shares closed 68¼p lower at 155½p.

Tim O'Toole, the chief executive, said yesterday that the debt had become an issue once the Department for Transport froze the nationwide train franchising schedule, leaving the company with a diminishing idea of future rail-related cashflows.

Mr O'Toole admitted that if it were to continue paying its dividend, the ratings agencies would have downgraded FirstGroup's investment grade BBB-rated debt, putting tens of millions of pounds on its already huge £164 million annual interest bill.

Mr O'Toole also said that several other options including demerging the group or selling businesses like Greyhound in the US had been considered.

Mr Gilbert first teamed with Mr Lockhead at the time of the original Grampian buyout and then steered it through a merger with Badgerline to become FirstGroup in the 1990s.

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 **Michael** 9 days ago
As an occasional Virgin Train passenger, I am grateful that the 'blessed Vigin Richard', supported by 174,569 petitioners to HMG (Parliament) won the battle to keep the franchise out of the clutches of First Group. 174,569 people could see the future and deemed that what they saw was not good.
One has to feel a tad sorry for FG passengers in the current situation.
I suspect that VT are just about the only large operator who could have garnered such support and in such a short space of time.

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 **mld** 9 days ago
Anyone who didn't see this one coming must have been asleep at the wheel. Quite worrying for a transport group.

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maynas 9 days ago
So shortage of funds likely to equal more misery for those of us commuting on FCC ?

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Mr Gareth Griffiths 9 days ago
Well we really have a government which has its 'finger on the pulse'. Arise Lord Richard?

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Simon 10 days ago
The Bearded One proven right yet again... pains me to say so.

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