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FirstGroup activist shareholder Coast Capital comes back with fighting talk

New York activist investor Coast Capital looked to ramp up the pressure on directors of FirstGroup PLC (LON:FGP) ahead of a shareholder meeting where it wants to oust the board.

The hedge fund, which owns a 9.8% stake in FirstGroup, fired a 24-page volley at the FTE 250 transport group on Tuesday, trash-talking the proposed new strategy and arguing why a carriage-full of new directors is needed.

WATCH: Coast Capital locked in battle over future of FirstGroup
 Alongside final results at the end of May, FirstGroup proposed focusing on its North American contract-based businesses, First Student school buses and First Transit corporate shuttles, with a separation and disposal of Greyhound coaches and the UK First Bus arms.

Plans for the UK rail business are on hold amid a UK government review into the structure of the industry.

Since unveiling its strategy update, FirstGroup has seen its shares drop 14%, which Coast chief investment officer James Rasteh said "demonstrates a growing erosion of investor confidence in a FGP management team that is well past its sell-by date".

A shareholder meeting on 25 June will decide on Coast's proposal to get rid of six of FirstGroup's current 11 board members, including new chief executive Matthew Gregory and chairman Wolfhart Hauser, which Coast, which has previously pointed out both lack sector expertise.

'Chronic mismanagement'

In a rebuttal earlier this month, FirstGroup pointed out that CEO Gregory has experience of the sector from his four years as CFO and argued that the board has been freshened up in recent years with "experience in the transport and travel sectors", while also rubbishing Coast's "irresponsible" proposals for ramping up debt and a share buyback programme funded through a loan, as well as accusing Coast of aiming to take control through "the use of non-independent directors" and failing to engage.

On Tuesday, Rasteh said Coast's research has found that the board's "chronic mismanagement has cost shareholders almost £750m in total losses - including impairments, restructuring charges, and insurance reserve charges. This exceeds the amount raised in the 2013 equity rights issuance."

He argued that Coast was only seeking to remove directors "who have clearly demonstrated their lack of fitness for office" and that its nominated directors "have never received nor stand to receive any compensation from Coast if appointed to the board of FGP".

The proposed directors include former UK transport minister Steve Norris, former 3i chairman Bob Stefanowski, former

Price: 56.8

Market Cap: £692.67 m

1 Year Share Price Graph



May 2019 November 2019 May 2020

Share Information

Code: FGP

Listing: LSE

52 week High Low
 138.8 25

Sector: Transport

Website: www.firstgroup.com

Company Synopsis:

FirstGroup plc is engaged in the provision of passenger transport services. It operates in four divisions: Bus, UK Rail, North America and Greyhound.

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Arriva CEO David Martin and former United Airline boss Jim Compton.

Hurt feelings

As well as bemoaning FirstGroup's failure to appreciate the "constellation" of proposed board members he had gone to the trouble of assembling, Rasteh fired off epithets about the "an unprofessional chairman and unprofessional and unqualified CEO whose terrible track record leaves them with only slander to deal".

The picture of a hedge fund with hurt feelings emerged, as Rasteh said FirstGroup's claim that Coast was "an opportunistic, self-interested player" that was only focused on the short-term was "disrespectful" and "deeply ungrateful" behaviour towards a loyal shareholder that, he kindly reminded, had turned down the opportunity to exit at a significant profit by selling to (rival US fund) Apollo last year and was "the only investor to come out unilaterally to defend the company" from this opportunistic bid.

Clearly Coast spied the chance to make an even bigger profit, but it remains to be seen whether investors in the London-listed company will provide their backing.

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