13 May 2020

FERGUSON PLC

Q3 2020 Trading update

WELL POSITIONED TO SUPPORT OUR ASSOCIATES AND CUSTOMERS THROUGH THE COVID-19 PANDEMIC. CONTINUED STRONG FINANCIAL POSITION.

At the time of the half year results on 17 March 2020 we were trading in line with expectations. As outlined in our trading update on 15 April 2020 since the middle of March we rapidly changed our operating procedures to protect the safety and wellbeing of our associates and our customers. This is against a background of the unprecedented action taken by governments to contain the COVID-19 virus and the societal impact which has resulted in adverse trading conditions within the Group's end markets. The Group is today outlining quarterly results for the 3 months to 30 April 2020.

Summary of revenue trends

Revenue growth / (decline) %	H1 2020	2 months to 31 March[1]	April 2020	Q3 2020[1]
USA	+5.0%	+8.2%	(9.3%)	+1.9%
Canada	(6.5%)	(7.7%)	(33.6%)	(16.4%)
Ongoing operations	+4.3%	+7.3%	(10.5%)	+0.9%
UK (non-ongoing)	(4.7%)	(10.3%)	(60.2%)	(26.5%)
Continuing operations	+1.1%	+5.1%	(15.3%)	(2.2%)

1) One additional trading day in the current year added 2.5% to both ongoing operations and US revenue growth in the 2 months to 31 March 2020 and 1.6% to both ongoing operations and US revenue growth in Q3 2020.

Commenting on the results Kevin Murphy, Group Chief Executive, said:

"Our strong revenue momentum in February and March was adversely impacted in April as federal, state and local COVID-19 restrictions and safety measures brought about a reduction in demand. We have rapidly implemented responsible working practices to protect the health and wellbeing of our associates and with few exceptions our traditional branch network remains open. During these challenging times we remain immensely thankful and very proud of the dedication of our 35,000 associates as they continue to support our customers in serving our critical industries.

"We have taken steps to manage our cost base and protect cash flow given the uncertain outlook both in the short-term during the crisis phase but also to ensure the business is appropriately sized for the post COVID-19 environment. We are confident these actions coupled with the strength of our balance sheet will serve us well in the coming months and years. As a value-added distributor Ferguson remains well positioned to support our customers, vendors and communities during this challenging time while continuing to build our capabilities for the long-term."

Current trading

In recent weeks the Group has remained focused on three key areas:

1. Protecting the health and wellbeing of our associates
2. Continuing to serve our customers during the crisis phase of the virus - a critical time of need
3. Protecting and preserving the strength of our businesses for the long-term

To safeguard the wellbeing of our associates and support our customers we are operating our business in adherence with the recommended Center for Disease Control (CDC) guidelines. Cleaning protocols at all sites are in operation alongside appropriate social distancing measures. Our branches are operating pick-up and delivery only with customers encouraged to order ahead with pick up in store at the curbside and touchless signature at the point of delivery or pick-up location. Associates who can work remotely continue to do so. Our showroom networks have remained closed through April and we have served customers using virtual consultations. In select markets we are starting to book face-to-face consultations with the necessary social distancing measures in place in line with local governmental guidance.

Trading volumes were lower in April as a result of the impact of the COVID-19 virus pandemic. In the US the revenue decline in April was 9.3%. The major impact on volume continues to be highly correlated to the degree of disruption locally which has been variable across US states and localities. Blended Branches revenue was down 15.3% in April and in the major hotspots, where infection rates have been highest, such as New England, New York, Michigan, the Pacific North West and Northern California revenue was down significantly. However, Waterworks grew revenue by 8.5% in April benefiting from fewer restrictions. Standalone eBusiness also grew well with revenue 14.6% ahead in the month as a result of strong consumer demand for home improvement products.

In Canada revenue was down 33.6% in April with widespread lockdowns in place although we expect some improvement in sales per day as some markets including Quebec reopen to construction activity in May. The UK remained very challenging due to the national lockdown severely impacting activity levels with revenue down 60.2% during the month.

Cost actions, cash optimization and liquidity

Ferguson has an agile business model and as we have started to see short-term revenue pressure our approach has been to protect our skilled workforce which is critical to the long-term success of the business. We have already taken a number of prudent cost saving measures to minimize impact on short-term profitability. This has included a hiring freeze, reduced overtime and restricting the use of temporary labor. Currently in markets where there has been a decline in revenue we are implementing a combination of reduced associate hours and temporary lay-offs based on business and market needs. That said, we are in the process of taking action across the Group to ensure the business is appropriately sized for the post COVID-19 operating environment.

The Company has also introduced a number of measures to protect its cash position including suspending the $500 million share buy back, pausing current M&A activity, withdrawing the interim dividend and reducing capital expenditure in 2019/20 to around $280-300 million. Ferguson remains in a strong financial position with long-term committed facilities. The Company's net debt, which excluded lease liabilities, at 30 April 2020 was $1.8 billion and the ratio of net debt to the last 12 months adjusted EBITDA was 1.0 times. As at 30 April 2020 the Group had $3.1 billion of available liquidity comprising readily available cash of $1.3 billion and $1.8 billion of undrawn facilities.

Q3 Trading summary

Ongoing operations[1] US$ millions	Q3 2020	Q3 2019	Change
Revenue	4,750	4,707	+0.9%
Trading profit[2]	351	339	
Less impact of IFRS16	(17)	-	
Underlying trading profit	334	339	(1.5%)
Trading days	64	63	
Net debt to Adjusted EBITDA[3]	1.0x	0.9x	

1) 'Ongoing operations' excludes businesses that have been closed, disposed of or are classified as held for sale. The UK has been moved to 'Non-ongoing operations'.
2) Before exceptional items and amortization of acquired intangible assets.
3) Ratio of net debt, which excludes lease liabilities, to pre-IFRS16 last twelve months EBITDA. Net debt excluding leases as at 30 April 2020 was $1,823 million and last twelve months adjusted EBITDA was $1,790 million.

Group results

The Group generated revenue in the ongoing businesses of $4,750 million in the third quarter, 0.9% ahead of last year or 1.7% behind on an organic basis. Gross margins were 40 basis points lower at 29.8% in the quarter with underlying trading profit of $334 million, $5 million behind last year. The impact of IFRS16 contributed a further $17 million to trading profit. There was one additional trading day in Q3 2020 compared to Q3 2019.

Regional analysis

US$ millions	Revenue Q3 2020	Revenue Q3 2019	Change	Trading profit Q3 2020	Less impact of IFRS16 Q3 2020	Underlying trading profit Q3 2020	Trading profit Q3 2019	Change
USA	4,541	4,457	+1.9%	360	(17)	343	346	(0.9%)
Canada	209	250	(16.4%)	(1)	-	(1)	4	(125%)
Central costs	-	-		(8)	-	(8)	(11)	
Ongoing operations	4,750	4,707	+0.9%	351	(17)	334	339	(1.5%)
UK (non-ongoing)	417	567	(26.5%)	(12)	-	(12)	20	(160%)

Quarterly organic revenue growth

Ongoing operations	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020
USA	+3.3%	+3.0%	+3.1%	+2.1%	(1.0%)
Canada	(2.9%)	(5.2%)	(6.4%)	(6.7%)	(14.9%)
Group	+3.0%	+2.5%	+2.5%	+1.6%	(1.7%)

USA

Our US business grew well in February and March but revenue was lower in April due to the impact from COVID-19 related restrictions and safety measures. Total growth of 1.9% comprised of a 1.0% organic decline offset by 1.3% of growth from acquisitions and a further 1.6% from the additional trading day. Price inflation during the quarter was broadly flat.

Gross margins were slightly lower due to the mix of business with no discernible pricing changes in the marketplace. Underlying trading profit of $343 million was 0.9% behind last year.

Before pausing M&A activity, we completed three acquisitions in the quarter including Columbia Pipe & Supply, which specializes in PVF, commercial mechanical, commercial plumbing, industrial, valve automation, engineered products and hydronics; Rencor Controls, an automated valve distributor in the North East; and MFP Design, a custom designer of fire sprinkler systems. These three businesses generated a combined $229 million of annualized revenue on a pre COVID-19 basis.

Canada

Revenue in Canada was 16.4% lower with markets remaining challenging in February and March prior to lockdowns in the balance of the quarter. Gross margins were slightly lower, contributing towards an underlying trading loss of $1 million, $5 million below last year.

Non-ongoing operations (Wolseley UK)

In the UK, revenue declined 26.5% in the quarter as the national lockdown severely impacted demand. An underlying trading loss of $12 million was $32 million lower than last year. We continue to actively manage the cost base given the challenging market environment.

The Board's strategic intent to demerge the UK business is unchanged and we continue to progress the demerger process, although timing will depend upon the stabilization of market conditions.

Nine months trading performance

US$ millions 9 months to 30 April 2020	Revenue 2020	Revenue 2019	Change	Trading profit 2020	Less impact of IFRS16 2020	Underlying Trading profit 2020	Trading profit 2019	Change
USA	13,859	13,330	+4.0%	1,134	(51)	1,083	1,046	+3.5%
Canada	784	865	(9.4%)	29	(1)	28	42	(33.3%)
Central costs	-	-		(30)	-	(30)	(36)	
Ongoing operations	14,643	14,195	+3.2%	1,133	(52)	1,081	1,052	+2.8%
UK (non-ongoing)	1,490	1,694	(12.0%)	18	-	18	53	(66.0%)

Other matters

During the quarter there were cash outflows of $202 million relating to acquisitions, $74 million relating to capital expenditure and $101 million of share buy backs. The IFRS 16 lease liability recognized on the balance sheet as at 30 April 2020 was $1,405 million. There have been no significant changes to the financial position of the Group since 30 April 2020.

An exceptional charge of $8 million in the quarter (2019: exceptional charge of $18 million) included $5 million of demerger costs relating to the UK business and $2 million of costs relating to the Group's listing assessment and shareholder consultation.

In May the Group completed the sale of its investment in Meier Tobler for $31 million completing the exit of all trading operations in Continental Europe. This is in line with our strategy to focus the Group's activities on North American markets.

Outlook

Due to the dynamic situation unfolding with COVID-19 the Company has withdrawn formal guidance. We continue to operate as an essential business with the majority of our branches open and serving customers as much as possible. Ferguson remains well positioned for long-term success operating in attractive and fragmented markets with a robust business model and backed by a strong balance sheet and liquidity position.

For further information please contact

Ferguson plc

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Investor conference call and webcast

A call with Kevin Murphy, Group Chief Executive and Mike Powell, Chief Financial Officer will commence at 10.00 UK time (05.00 Eastern) today. The call will be recorded and available on our website after the event www.fergusonplc.com.

Dial in number	UK:	+44 (0)330 336 9105
	US:	+1 323 794 2093

Please join the event conference 5-10 minutes prior to the start time and ask for the Ferguson call quoting 3171991.

To access the call via your laptop, tablet or mobile device please click here. If you have technical difficulties, please click the "Listen by Phone" button on the webcast player and dial the number provided.

About Ferguson

Ferguson plc is a value-added distributor of plumbing and heating products to professional contractors principally operating in North America and the UK. Ongoing revenue for the year ended 31 July 2019 was $21.8 billion and ongoing trading profit was $1.6 billion. Ferguson plc is listed on the London Stock Exchange (LSE: FERG) and is in the FTSE 100 index of listed companies. For more information, please visit www.fergusonplc.com or follow us on Twitter https://twitter.com/Ferguson_plc.

Legal disclaimer

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