December 8, 2020

Ferguson plc: Trading update for the 3 months to October 31, 2020

RESILIENT BUSINESS MODEL DELIVERED STRONG TRADING PROFIT GROWTH IN A CHALLENGING PERIOD

Ongoing businesses[1] US$ millions	**Q1 2021**	**Q1 2020**	**Change**
Revenue	5,372	5,208	+3.1%
Gross margin	29.6%	29.7%	(0.1%)
Trading profit[2]	504	451	+11.8%
Less impact of IFRS16	(18)	(18)	
Underlying trading profit	486	433	+12.2%
Adjusted EBITDA[3]	558	495	+12.7%
Net debt : adjusted EBITDA[3]	0.5x	0.8x	
Trading days	64	65	(1)

First quarter highlights

- Ongoing revenue 3.1% ahead of last year, despite one fewer trading day.
- US ongoing revenue growth of 3.2% and underlying trading profit growth of 11.3%.
- Gross margin down 0.1% driven by mix.
- Tight cost control ensured strong trading profit delivery.
- Restarted M&A program with two US bolt-on acquisitions in the new financial year.
- Excellent operating cash generation.
- Strong balance sheet with net debt : adjusted EBITDA of 0.5 times, 0.7 times pro-forma if adjusted for expected $467 million cash outflow from the final dividend payment in December 2021.

Kevin Murphy, Group Chief Executive, commented:

"We are pleased with the revenue growth in the first quarter and today's results further demonstrate the resilience of our business model. We are firmly focused on revenue growth and continued market share gains at the same time as carefully controlling gross margins and costs. This approach has enabled us to deliver robust trading profit growth in the first quarter. Cash generation was good and our balance sheet remains strong. This has enabled us to continue to invest in the business including our technology platforms to drive the best digitally enabled customer relationships and a seamless omni-channel experience.

"Our continued focus is on protecting our associates and supporting our customers and we would like to express our sincere thanks to all of our 33,000 associates for their dedication and commitment during these challenging times. Our associates are the main contributors to our success as they continue to deliver outstanding service to our customers.

"Since the start of the second quarter Ferguson has continued to generate low single digit revenue growth in broadly flat markets although we remain cautious on the outlook for the year as a whole, considering current pandemic trends. Despite these potential headwinds the business is in very good shape and we are well prepared should there be any further market related disruption and overall management's expectations for FY 2021 are unchanged."

1) 'Ongoing businesses' excludes businesses that have been closed, disposed of, or held for sale. The UK has been moved to 'Non-ongoing operations'.
2) Trading profit is defined as operating profit before exceptional items and the amortization of acquired intangible assets.
3) Net debt excludes lease liabilities and adjusted EBITDA excludes the impact of IFRS 16.

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Group results

The ongoing business generated revenue of $5,372 million in the first quarter, 3.1% higher than last year and 3.3% ahead on an organic basis. Gross margins of 29.6% were down 0.1% driven by mix but operating costs continued to be well controlled which led to a good overall trading performance. Ongoing underlying trading profit of $486 million was $53 million higher than last year despite one fewer day in the quarter compared to 2020. Underlying trading profit excludes an $18 million impact arising from IFRS16 (2019/20: $18 million).

Regional analysis

US$ millions	Revenue Q1 2021	Revenue Q1 2020	Change	Trading profit Q1 2021	Less impact of IFRS16 Q1 2021	Underlying trading profit Q1 2021	Underlying trading profit Q1 2020	Change
US	5,050	4,893	+3.2%	490	(17)	473	425	+11.3%
Canada	322	315	+2.2%	24	(1)	23	19	+21.1%
Central costs	-	-		(10)	-	(10)	(11)	
Ongoing Group	5,372	5,208	+3.1%	504	(18)	486	433	+12.2%
UK (Non-ongoing)	569	541	+5.2%	26	(1)	25	15	+66.7%

Quarterly organic revenue growth

Ongoing businesses	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021
US	+3.1%	+2.1%	(1.0%)	(2.4%)	+3.3%
Canada	(6.4%)	(6.7%)	(14.9%)	(5.6%)	+3.5%
Group	+2.5%	+1.6%	(1.7%)	(2.6%)	+3.3%

USA

Our US business generated revenue growth of 3.2%, which comprised 3.3% organic growth, 1.5% from acquisitions offset by 1.6% arising from one fewer trading day in the quarter. Price inflation during the quarter was broadly flat.

Residential end markets, which comprise just over half of our US revenue, have remained solid in the period generating good growth. New residential housing starts and permits grew well in the quarter and residential RMI has remained resilient. Commercial markets were more challenging with Civil markets impacted as a result of more restricted municipal funding. Industrial markets remained soft in part due to a tough environment for manufacturing during the pandemic. Overall, our order books grew year-on-year in the first quarter consistent with continuing modest revenue growth over the coming months.

Residential trade and residential showroom grew well while Commercial growth continued to be restricted by more challenging non-residential markets. HVAC continued to grow well, as did eBusiness which generated exceptional growth from strong residential demand. The Waterworks business was broadly flat while Industrial revenue also remained weak. Gross margins were a touch lower than last year and operating expenses were well controlled benefiting from restructuring actions announced last year and continued savings during the pandemic in areas such as travel, customer engagement and healthcare costs. Underlying trading profit was strong at $473 million, $48 million ahead of last year, driven principally by the lower cost base which delivered improved operating leverage as revenue growth returned.

We completed one small acquisition towards the end of the quarter, Old Dominion Supply, a residential and commercial HVAC distributor with annualized revenue of approximately $55 million. The business gives us greater vendor and product synergies in the Washington D.C. metro area, Maryland and Northern Virginia markets.

After the quarter end we also acquired Atlantic Construction Fabrics, a geotextile company offering erosion control solutions and geosynthetic products. The company operates along the East coast and generates annualized revenue of approximately $100 million. Its additional geotextile capabilities will further diversify our Waterworks business and complement our existing customer offering in geosynthetics, erosion control and stormwater management.

Canada

Revenue grew by 2.2% in Canada with inflation of approximately 2%. Organic growth of 3.5% was offset by the lower number of workdays. Residential end markets showed signs of growth but trading conditions remained more challenging in Western Canada. Gross margins were slightly lower but underlying trading profit of $23 million was $4 million ahead of last year, benefitting from restructuring actions and a lower cost base.

UK (non-ongoing operations)

Revenue grew by 5.2% in the UK with organic growth of 1.2% and inflation being broadly flat in the quarter. Gross margins were slightly lower due to product mix but underlying trading profit of $25 million was $10 million ahead of last year. The business continues to benefit from refocusing on a clear customer proposition and targeted sales initiatives combined with recent restructuring actions to significantly improve the cost base and focus the business on operational efficiencies.

In September 2019, the Board announced its intention to separate its Wolseley UK operations by way of a demerger into an independent UK listed company, subject to shareholder approval. As announced in September 2020, this remains uncertain in the current economic environment and consequently the Board is assessing other separation options in parallel with progress towards the demerger to facilitate the exit of the Wolseley UK business.

Financial position

Net debt excluding leases at October 31, 2020 was $866 million after a cash outflow of $103 million relating to acquisitions and capital expenditure and a $189 million outflow relating to working capital. The IFRS 16 lease liability recognised on the balance sheet as at October 31, 2020 was $1,212 million.

Following shareholder approval at the AGM, the dividend of 208.2 cents per share, amounting to approximately $467 million, will be paid to shareholders on December 11, 2020.

There have been no other significant changes to the financial position of the Group.

Outlook

Since the start of the second quarter Ferguson has continued to generate low single digit revenue growth in broadly flat markets although we remain cautious on the outlook for the year as a whole, considering current pandemic trends. Despite these potential headwinds the business is in very good shape and we are well prepared should there be any further market related disruption and overall management's expectations for FY 2021 are unchanged.

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 Bill Brundage, Group Chief Financial Officer will commence at 1200 UK time (0700 ET) 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

Ask for the Ferguson call quoting 2792963. 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.

Ferguson plc is a leading value added distributor of plumbing and heating products to professional contractors principally operating in North America. Ongoing revenue for the year ended July 31, 2020 was $19.9 billion and ongoing underlying 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.

Analyst resources

Further information on quarterly financial breakdowns can be found on the company website here.

Provisional financial calendar

H1 Results for period ending January 31, 2021	March 16, 2021
Q3 results for the period ending April 30, 2021	June 8, 2021
Full Year Results for year ended July 31, 2021	September 28, 2021

Legal disclaimer

Certain information included in this announcement is forward-looking and involves risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied by forward-looking statements. Forward-looking statements cover all matters which are not historical facts and include, without limitation, projections relating to results of operations and financial conditions and the Company's plans and objectives for future operations, including, without limitation, discussions of expected future revenues, financing plans, expected expenditures and divestments, risks associated with changes in economic conditions, the strength of the plumbing and heating markets in North America and Europe, fluctuations in product prices and changes in exchange and interest rates, and potential impacts of the COVID-19 pandemic on our business operations, financial results, financial position and on the global economy. Forward-looking statements can be identified by the use of forward-looking terminology, including terms such as "believes", "estimates", "anticipates", "expects", "forecasts", "intends", "plans", "projects", "goal", "target", "aim", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. Forward-looking statements are not guarantees of future performance. All forward-looking statements in this announcement are based upon information known to the Company on the date of this announcement. Accordingly, no assurance can be given that any particular expectation will be met and readers are cautioned not to place undue reliance on forward-looking statements, which speak only at their respective dates. Additionally, forward-looking statements regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Other than in accordance with its legal or regulatory obligations (including under the UK Listing Rules, the Prospectus Rules, the Disclosure Guidance and the Transparency Rules of the Financial Conduct Authority), the Company undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Nothing in this announcement shall exclude any liability under applicable laws that cannot be excluded in accordance with such laws.

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