NEWS RELEASE

Q3 Interim Management Statement for the 3 months to the 30 April 2019

6/10/2019

CONTINUED GROWTH, RE-AFFIRMING GUIDANCE, $500 MILLION SHARE BUY BACK

Ongoing businesses1	Q3 2019	Q3 2018	Change
US$ millions			
Revenue	5,274	4,968	+6.2%
Trading profit2	359	351	+2.3%
Net debt to EBITDA	0.9x	0.9x3	

Third quarter highlights

- Ongoing revenue growth of 6.2%, including 8.4% in the USA.
- Solid gross margins, slightly ahead of last year.
- Good cost control, underlying operating costs lower than in Q2.
- Ongoing trading profit of $359 million was $8 million ahead of last year.
- Strong operating cash generation of $632 million in the quarter with net debt to EBITDA of 0.9x.
- Share buy back of $500 million announced today.

John Martin, Chief Executive, commented:

“The Group continued to grow in Q3 with revenue 6.2% ahead. We also continued to successfully grow our gross margins and have improved our underlying cost base over the last two quarters.

“We are confident that Ferguson will continue to make progress as we remain firmly focused on delivering superior customer service. We expect to generate ongoing Group trading profit in the year ended 31 July 2019 in line with current analysts’ consensus forecasts.4

“Cash generation continued to be excellent and our balance sheet remains strong. We will continue to invest organically in our businesses supplemented by bolt-on acquisitions in our core operations. Given our strong financial position, and in line with our capital allocation policy, we are initiating a $500 million share buy back programme which we expect to complete over the next 12 months.”

Group results

Revenue in the quarter was $5,274 million, 6.2% ahead of last year and 2.7% ahead on an organic basis. Gross margins continued to improve, up 20 basis points to 29.5% and operating costs were well controlled. Trading profit of $359 million was $8 million ahead of last year. There were the same number of trading days as in Q3 last year and exceptional costs were $18 million in the quarter.

1) ‘Ongoing businesses’ excludes businesses that have been closed, disposed of, or are classified as held for sale.
2) Before exceptional items and amortisation of acquired intangible assets.
3) Adjusted for $1.3 billion proceeds from sale of Nordic businesses, $1.0 billion of which was returned to shareholders on 29 June 2018. Q3 2018 reported net debt to EBITDA was 0.1x.
4) Analysts’ consensus for 2019 trading profit on the Company’s website is an average of $1,585 million (ranging from $1,570 million to $1,597 million)

Three months to 30 April by region

Ongoing businesses US$ millions	Revenue Q3 2019	Revenue Q3 2018	Change (at constant exchange rates)	Trading profit Q3 2019	Trading profit Q3 2018	Change (at constant exchange rates)
US	4,457	4,109	+8.4%	346	334	+3.6%
UK	567	605	+0.4%	20	22	(0.1%)
Canada	250	254	+2.9%	4	7	(49.5%)
Central costs	-	-		(11)	(12)	
Group	5,274	4,968	+7.3%	359	351	+2.5%

Quarterly organic revenue growth trends were as follows:

Ongoing businesses	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019
US	+10.6%	+11.4%	+9.6%	+9.7%	+3.3%
UK1	+0.2%	(0.6%)	+0.8%	(1.0%)	+2.8%
Canada	+4.7%	+6.3%	+3.3%	+0.5%	(2.9%)
Group	+7.0%	+8.1%	+6.7%	+6.4%	+2.7%

USA

The US business grew revenue 3.3% on an organic basis with acquisitions contributing a further 5.1%. Revenue growth rates remained positive in the quarter but moderated across the country. The major business units of Blended Branches, Waterworks, Industrial and HVAC continued to grow across all regions. Organic revenue in our standalone eBusiness was slightly lower as we continued our strategy of focusing on fewer trading websites.

Gross margins were slightly ahead of last year including the impact of acquisitions. Operating expenses were well controlled and headcount was lower than Q2. Trading profit of $346 million (2018: $334 million) was $12 million ahead of last year. During the quarter we acquired Kitchen Art, a high-end kitchen cabinetry design, installation and remodelling business.

In line with our guidance at the half year, the overall market environment has moderated to low growth and we continued to gain market share. Recent results for our largest quoted suppliers2 show an average growth rate of 0% in the first calendar quarter compared to 8% in the same period last year. New residential housing starts and residential construction put-in-place data from the US Census Bureau declined in the quarter. The Case Schiller house price index and JCHS LIRA remodelling spend indicators both softened, though remained positive. Commercial construction put-in-place data grew very modestly and the Architectural Billings Index increased slightly in April. Our orderbooks continued to grow year-on year suggesting modest growth over the coming months.

UK

Like-for-like revenue growth was 2.8% in the quarter. Gross margins were lower but costs were well controlled. Trading profit of $20 million was flat at constant currency but $2 million lower than last year due to adverse foreign exchange rate movements.

Canada

In Canada organic revenue declined 2.9% with residential markets slowing as a result of rising interest rates and government initiatives to restrict mortgage credit. Acquisitions contributed 5.8% of additional revenue growth. Gross margins were firm, though trading profit was $3 million below last year and we are continuing to lower the cost base.

1) The UK revenue growth rate is presented on a like-for-like basis to remove the impact of closed branches and the exit of low margin business.
2) Refers to published data for the relevant divisions of Mueller, Fortune Brands, Masco, Lixil, Whirlpool, A O Smith.

Nine months trading performance

Ongoing businesses US$ million 9 months to 30 April 2019	Revenue 2019	Revenue 2018	Change (at constant exchange rates)	Trading profit 2019	Trading profit 2018	Change (at constant exchange rates)
USA	13,330	12,020	+10.9%	1,046	982	+6.5%
UK	1,694	1,913	(7.5%)	53	58	(5.6%)
Canada	865	852	+6.3%	42	42	+5.4%
Central costs	-	-		(36)	(40)	
Group	15,889	14,785	+8.3%	1,105	1,042	+6.4%

Financial position

The Group's cash generation has been strong resulting in net debt at 30 April 2019 of $1,588 million (30 April 2018: $1,582 million1) and the ratio of net debt to the last twelve months EBITDA was 0.9x (30 April 2018: 0.9x1). The Group aims to operate with a net debt to EBITDA ratio of between 1x and 2x.

Board changes

In May, Geoff Drabble joined the Board as a Non-Executive Director and will succeed Gareth Davis as Chairman after the 2019 Annual General Meeting, subject to shareholder approval. Gareth will step down as a Director in January 2020 to ensure an orderly handover of responsibilities. Geoff joins Ferguson following a 12-year period as Chief Executive of Ashtead, the FTSE 100 industrial equipment rental company. He was previously an executive director of The Laird Group plc and held a number of senior management positions at Black & Decker. Gareth has served as a Non-Executive Director of Ferguson for 16 years including nearly nine years as the Company's Chairman. The Board would like to express its thanks to Gareth for the significant contribution he has made to Ferguson and his outstanding stewardship of the Board.

Capital allocation policy and shareholder returns

Ferguson consistently generates strong operating cash flows with free cash flows2 in excess of $700 million in each of the last four years. In normal economic conditions the business reinvests in fixed and working capital to support strong growth. In periods of lower growth, reinvestment needs are more modest and free cash flows tend to be

higher with maintenance capital expenditure of less than 1% of revenue. The Company aims to grow ordinary dividends over time commensurate with the long-term earnings growth of the business. Investment in selective bolt-on acquisitions has typically been in the range $200 million to $300 million per year.

Ferguson has returned $3.5 billion of surplus cash to shareholders over the last 6 years and we expect to continue to generate significant free cash flows which are beyond our immediate re-investment needs. The Group currently has surplus cash and in line with the Company's capital allocation policy, we are proposing to buy back $500 million of our shares over the next 12 months.

Outlook

We are confident that Ferguson will continue to make progress as we remain firmly focused on delivering superior customer service. We expect to generate ongoing Group trading profit in the year ended 31 July 2019 in line with current analysts' consensus forecasts.3

1) Adjusted for approx. $1.3 billion proceeds from sale of Nordic businesses, $1.0 billion of which was returned to shareholders on 29 June 2018. Q3 2018 reported net debt to EBITDA was 0.1x.
2) Free cash flow is cash generated from operations less interest, tax and capex.
3) Analysts' consensus for 2019 trading profit on the Company's website is an average of $1,585 million (ranging from $1,570 million to $1,597 million)

To view entire annoucement please click here

For further information please contact:

Ferguson plc:

Mike Powell, Group Chief Financial Officer:
Tel: +44 (0) 118 927 3800

Mark Fearon, Director of Corporate Communications and IR:
Mobile: +44 (0) 7711 875070

Media Enquiries:

Mike Ward, Head of Corporate Communications:
Mobile: +44 (0) 7894 417060

Nina Coad (Brunswick):
Tel: +44 (0) 20 7404 5959

Investor conference call

A conference call with John Martin, Group Chief Executive, and Mike Powell, Group Chief Financial Officer, will commence at 08.00 UK time today. The call will be recorded and available on our website after the event at **www.fergusonplc.com**.

Dial in number	UK:	+44 (0)330 336 9105

Ask for the Ferguson call quoting 8638361.