

2017/18 Half Year Results presentation

6 months to 31 January 2018

Half Year 2017/2018 Highlights

John Martin, Chief Executive

Operating and strategy highlights

Strong operating performance

- 7.4% organic revenue growth, 8.7% organic revenue growth in the US
- Gross margins 0.4% ahead of last year
- Trading profit growth of 14.4% at constant exchange rates
- Good cash generation and strong balance sheet

Good progress on strategy

- Executing growth strategies effectively in the USA
- Accelerating UK restructuring
- Growing market share and capabilities in Canada

Corporate highlights

- Stark Group disposal : completion expected end of March
- Proposed special dividend of c. \$1 billion (\$4 per share)
- Ongoing share buy back of approx. \$650 million

Operating and financial review

Mike Powell, Group CFO

Financial highlights

	H1 2018	H1 2017	Change	Change (at constant exchange rates)	Organic change ²
Ongoing revenue	\$10,027m	\$9,090m	+10.3%	+9.0%	+7.4%
Ongoing gross margin %	29.4%	29.0%	+0.4%		
Ongoing trading profit ¹	\$698m	\$607m	+15.0%	+14.4%	
Ongoing trading margin % ¹	7.0%	6.7%	+0.3%		
Headline earnings per share ¹	202.1c	173.3c	+16.6%	+15.8%	
Ordinary dividend per share	57.4c	52.1c	+10%		
Net debt	\$1,401m	\$1,632m			

¹ Before exceptional items, the amortisation and impairment of acquired intangible assets and with respect to headline EPS before non-recurring tax items and non-controlling interest.

² The increase or decrease in revenue excluding the effect of currency exchange, acquisitions and disposals and trading days.

Good growth and margin progression

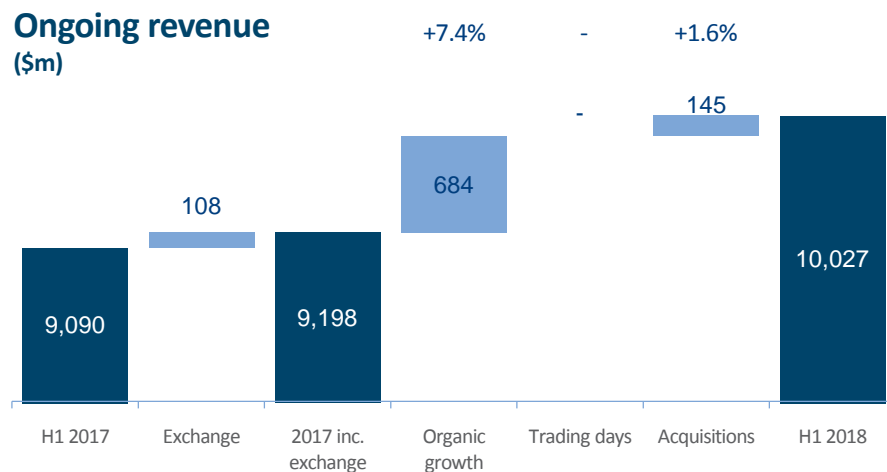
Organic revenue growth

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	H1 2018
USA	+4.8%	+6.9%	+8.8%	+8.7%	+8.3%	+9.1%	+8.7%
UK	(3.4%)	+3.1%	(1.4%)	+3.4%	+3.2%	(2.1%)	+ 0.5%
Canada & Central Europe	(1.7%)	+1.2%	+7.3%	+7.7%	+7.7%	+7.8%	+7.8%
	+3.1%	+5.9%	+7.1%	+8.0%	+7.6%	+7.3%	+7.4%

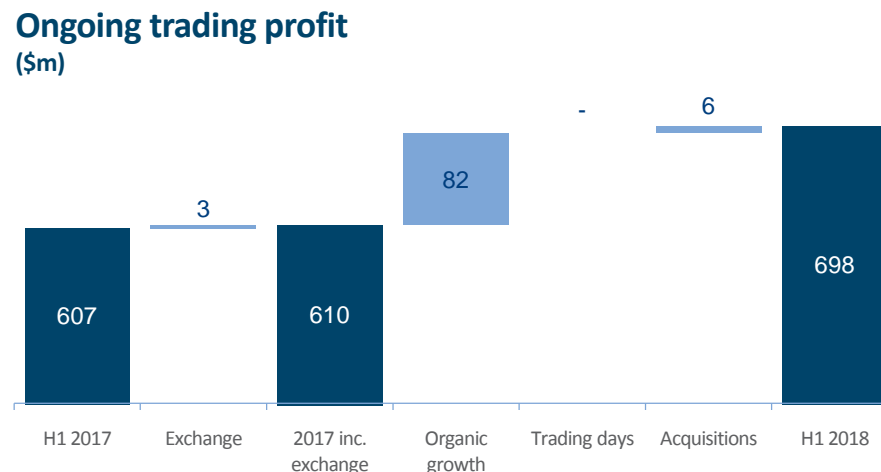
Good revenue momentum, tougher comparators in second half

Revenue and trading profit growth

Ongoing revenue (\$m)



Ongoing trading profit (\$m)



Good profit growth and flow through

USA ongoing

(89% of Group trading profit)

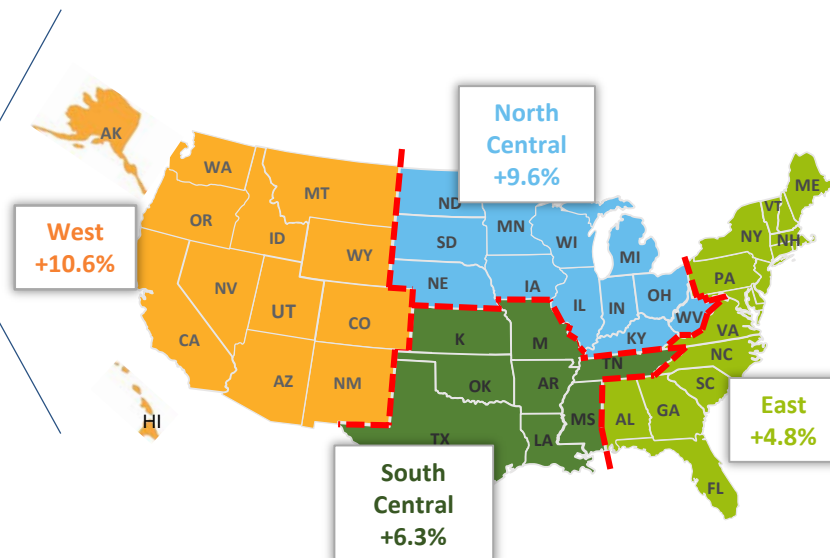


\$m	H1 2018	H1 2017	Change
Revenue	7,912	7,156	+10.6%
Organic revenue growth	+8.7%	+5.8%	
Trading profit	647	559	+15.7%
Trading margin	8.2%	7.8%	+0.4%

Good revenue and profit growth

USA organic revenue growth

Business unit	Revenue \$m	Organic growth
Blended Branches (see regional analysis on the right)	4,622	+7.6%
Waterworks standalone	1,265	+12.0%
B2C e-commerce	743	+13.1%
HVAC standalone	530	+8.1%
Industrial standalone, Fire & Fabrication and Facilities Supply	752	+6.8%
	7,912	+8.7%



Broadly based growth

USA end-market revenue growth

	% of US revenue H1 2018	Market growth H1 2018	US organic revenue growth H1 2018
Residential	~ 50%	7%	+10 - 11%
Commercial	~ 35%	4%	+5 - 6%
Civil / Infrastructure	~ 7.5%	4%	+11 - 12%
Industrial	~ 7.5%	7%	+10 - 11%
		5% - 6%	+8.7%

Continued outperformance in supportive markets

UK

(5% of Group trading profit)



\$m	H1 2018	H1 2017	Change	Change (at constant exchange rates)
Revenue	1,354	1,277	+6.0%	+0.5%
Organic revenue growth	+0.5%	(0.2%)		
Trading profit	38	44	(13.6%)	(18.6%)
Trading margin	2.8%	3.5%	(0.7%)	

Restructuring accelerated in challenging markets

Canada & Central Europe ongoing

(6% of Group trading profit)



\$m	H1 2018	H1 2017	Change	Change (at constant exchange rates)
Revenue	761	657	+15.8%	+9.3%
Organic revenue growth	+7.8%	(0.3%)		
Trading profit	41	30	+36.7%	+27.2%
Trading margin	5.4%	4.6%	+0.8%	

Improved Canadian performance

Exceptional items

\$m	Cash	Non-cash	P&L total
UK restructuring costs	23	14	37
Other	9	-	9
Total exceptional costs in first half	32	14	46

Exceptional costs as expected

Financing & tax

\$m	H1 2018	H1 2017
Financing		
Reported P&L charge	27	29
Tax		
Ongoing P&L charge	169	160
Ongoing effective tax rate	25.1%	27.7%

FY19 onwards effective tax rate expected to be 21% - 22%

Cash

\$m	H1 2018	H1 2017
Reported trading profit	698	630
Depreciation & amortisation	84	91
Reported EBITDA	782	721
Working capital	(398)	(328)
Exceptional items, discontinued and other	6	17
Cash flow from operating activities	390	410
Interest & tax	(129)	(215)
Acquisitions	(120)	(296)
Capex	(175)	(91)
Dividends & buybacks	(583)	(209)
Other items and FX	(78)	8
Movement in net debt	(695)	(393)
Net debt as reported	(1,401)	(1,632)
Net debt / EBITDA ¹	0.8x	1.2x

¹ Covenant net debt to / EBITDA includes discontinued businesses.

Acquisitions



VAGUE & VOGUE

Annualised revenue of \$162m and trading profit of \$10m

Technical guidance for the full year to 31 July 2018

Trading days and estimated impact on trading profit

Same number of days in each quarter

Trading profit impact from completed acquisitions

\$11 million

Exceptional costs in the UK

\$65 million (including \$50m of cash)

Effective tax rate

approx. 25%

Capital investment

\$250 - \$300 million

Working capital investment

12% -13% of incremental revenue

Capital allocation

Cash generation

- Ferguson is highly cash generative through the cycle
- Remain committed to target net debt : EBITDA range of 1x – 2x and priorities for cash usage
 - 1) Invest in organic growth
 - 2) Progressive dividend policy, aim to grow the dividend in line with the long-term underlying growth in earnings
 - 3) Invest in bolt-on M&A that meet our stringent investment criteria
 - 4) Return surplus capital to shareholders reasonably promptly

Capital returns

- Share buyback announced on 3 October 2017 will continue, approximately half completed
- Interim dividend increased by 10% to 57.4c
- Stark Group disposal proceeds surplus to ongoing requirements of the business
- Proposed special dividend of \$4 a share, approximately \$1 billion, and share consolidation

Continued capital discipline

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 **FERGUSON** Bath, Kitchen & Lighting Gallery

Business review and outlook

John Martin, Chief Executive

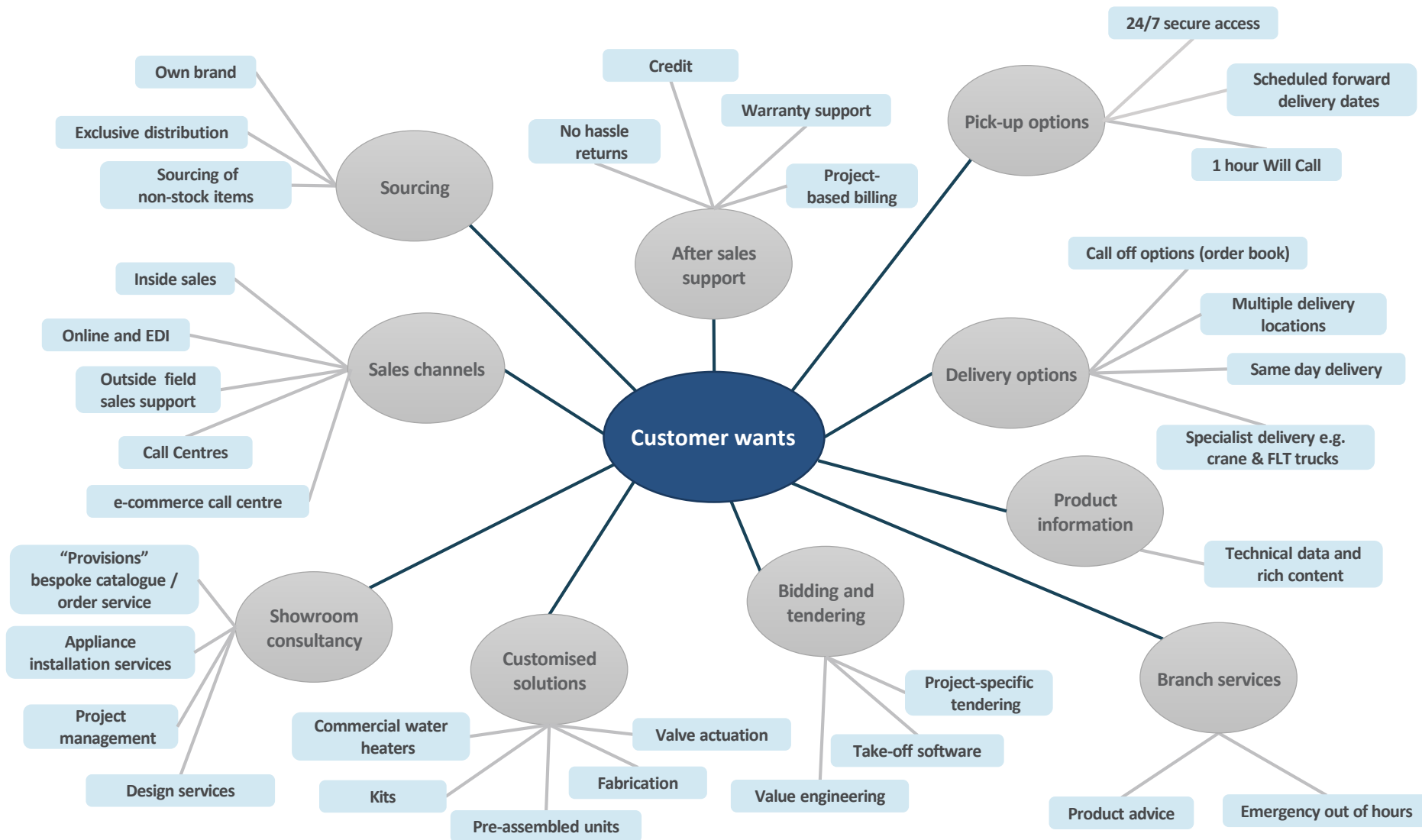
Key priorities

1. Generate the best profitable growth in the USA
2. Execute UK restructuring and repositioning plan
3. Capitalise on the significant growth opportunity in Canada
4. Accelerate innovation
5. Complete Nordics exit

Drivers of profitable growth

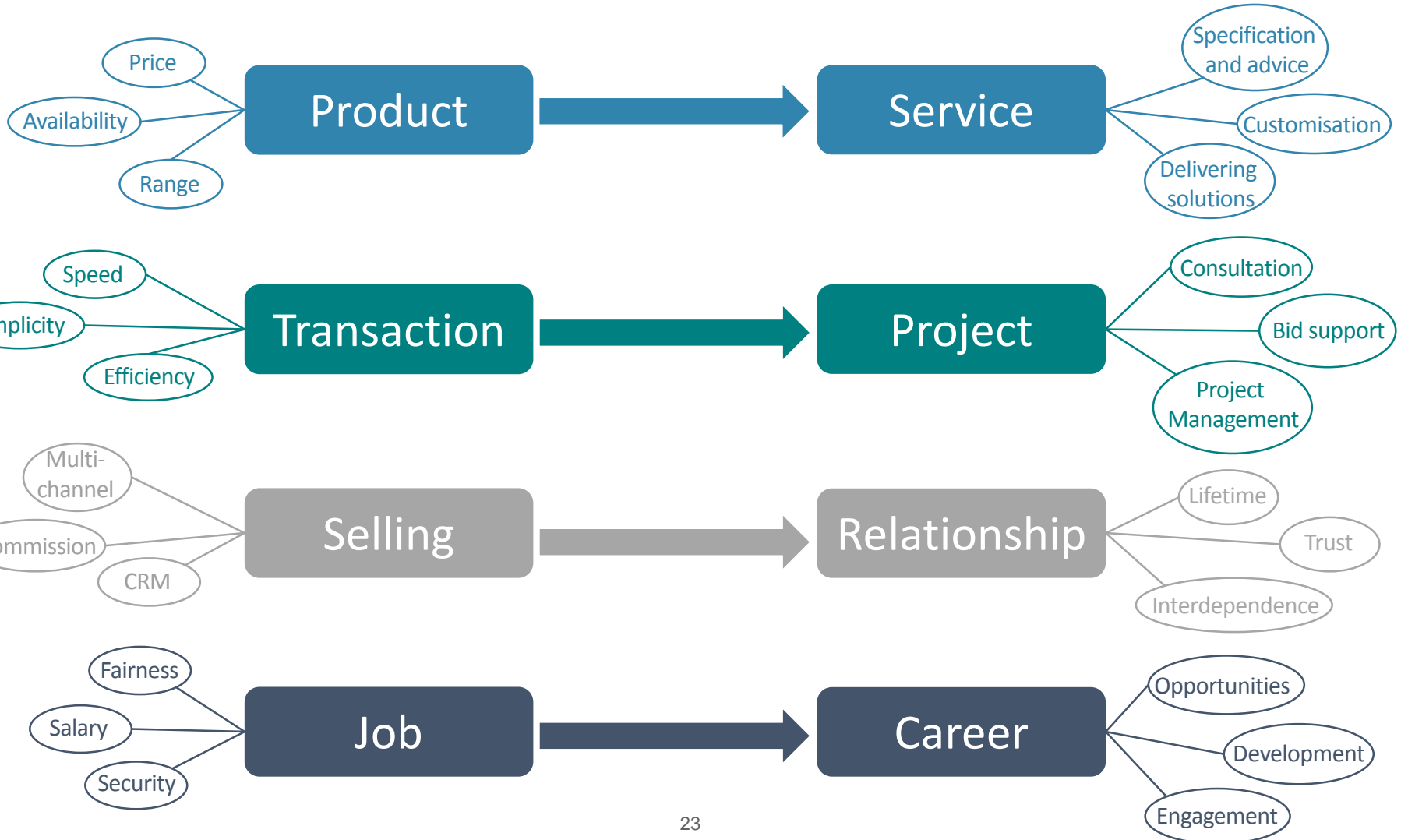
Fulfilling customer wants	Attractive growth opportunities	Excellent execution
Engaged associates	Organic expansion	Operating model and e-commerce development
Excellent service ethic	Bolt on acquisitions	Pricing discipline
Strong sales culture	Adjacent opportunities	Own brand penetration

Fulfilling customer wants

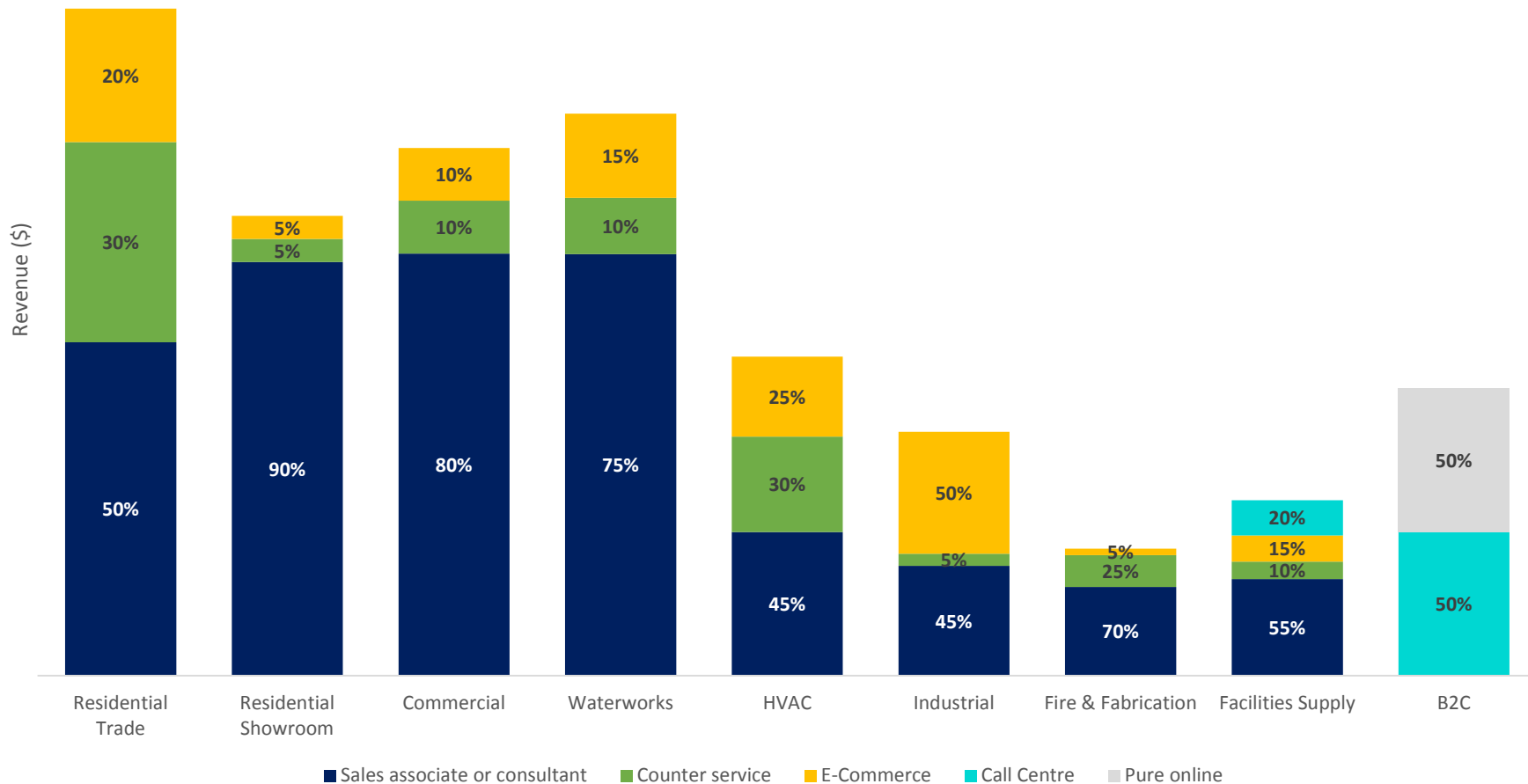


Getting the basics right

Sustaining competitive advantage



Providing sales channels that customers value

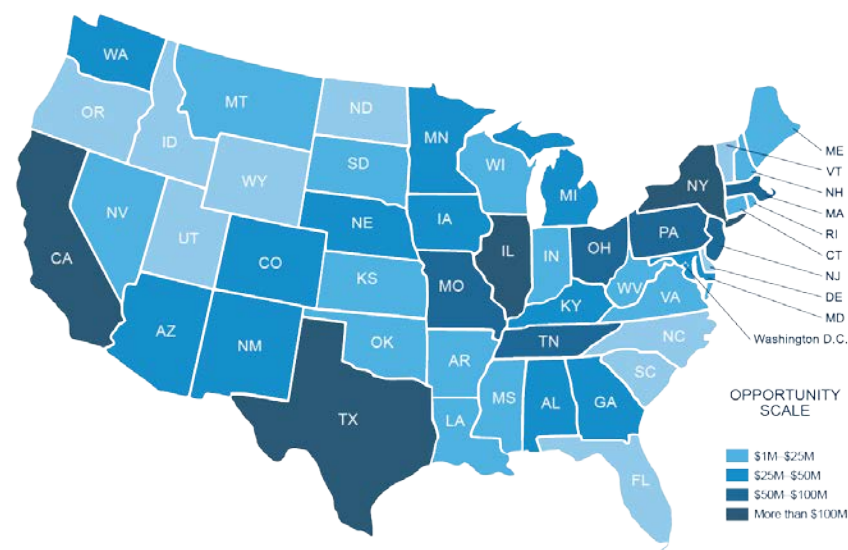
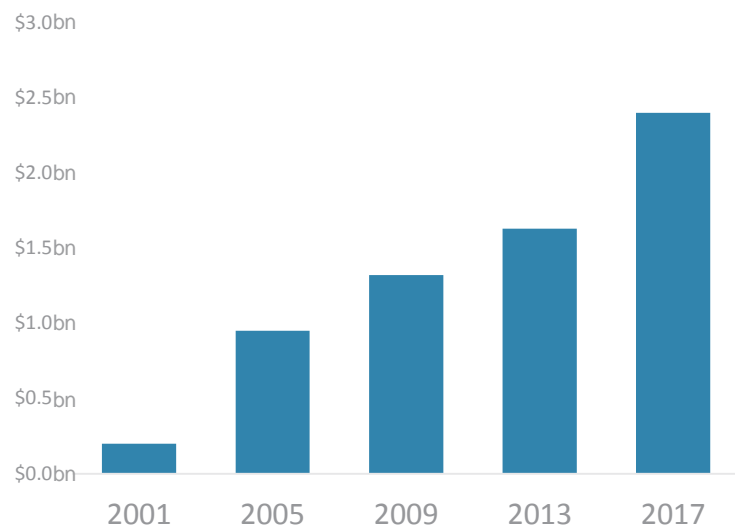


Inside sales, outside sales and showroom consultants drive a majority of our sales

Drivers of profitable growth

Fulfilling customer wants	Attractive growth opportunities	Excellent execution
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Adjacent opportunities: Waterworks



Excellent growth trend
(including 1/3 from acquisitions)

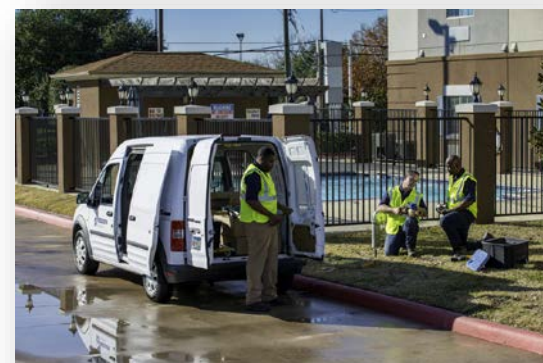
Very large market opportunity

Waterworks growth opportunities

Meter and automation group	Rural / municipal water market	Support design/build treatment plants
<ul style="list-style-type: none"> • Recruit and train dedicated product and technology specialists, sales managers and installation professionals • Develop centralised technical expertise by meter line 	<ul style="list-style-type: none"> • Recruit and train dedicated area municipal sales managers • Continue to recruit rural water sales associates targeting smaller, under-served markets • Work with customer at early stages (specification) 	<ul style="list-style-type: none"> • Invest resources to support emerging trend of design / build projects • Improve conversion ratio by engaging customers in early stages of design / build projects

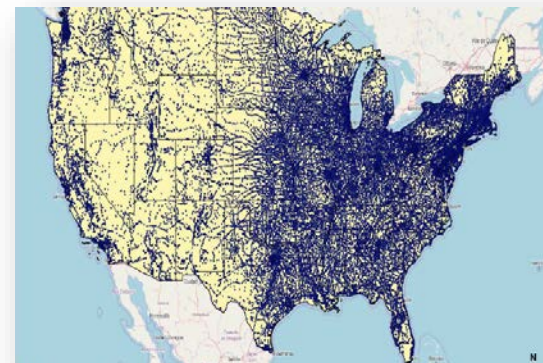
Meter and automation group

- We now have ~ 10% of \$1.2bn market
- Municipal needs
 - Lower cost
 - Increase accuracy
 - Improved data management
- Stand-alone business model with dedicated focus
 - Longer sales cycle
 - Multi-level selling
 - Technology solutions drive sales
- Exclusive vendor relationships by state
- Scalable sales, service and support



Rural / municipal water

- We now have ~12% of \$2.6bn municipal market
- 52,000+ water systems in the US, with some consolidation
- Major investment is needed as infrastructure is ageing
- Key skills required
 - Well-trained associates with industry knowledge
 - Vendor relationships
 - Online take-offs
 - Value engineering / specification influence
 - Project management
 - Access to information – Ferguson.com

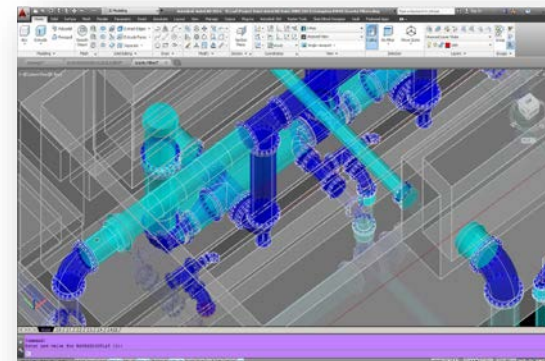


Water utilities in the USA, source: American Waterworks Association



Treatment plant business

- We now have ~25% of a \$0.9bn market
- Dedicated expert team to assist throughout design-build process.
 - Estimating, quotation, research and review
 - Scope and budget development
 - Value engineering
 - CAD drafting
 - Project management and tracking
- Help our customers to bid more projects

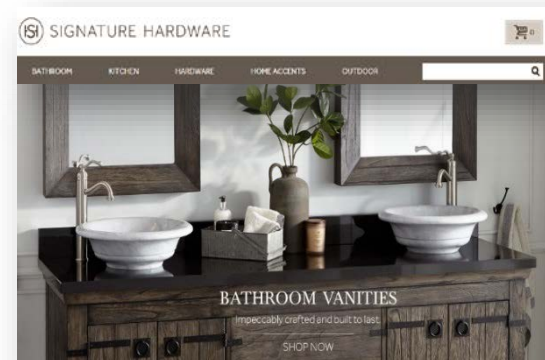


Drivers of profitable growth

Fulfilling customer wants	Attractive growth opportunities	Excellent execution
Engaged associates	Organic expansion	Operating model and e-commerce development
Excellent service ethic	Bolt on acquisitions	Pricing discipline
Strong sales culture	Adjacent opportunities	Own brand penetration

Own brand development: eg Signature Hardware

- Online retailer of bathroom and kitchen hardware
- \$150m revenue pa
- 100% own brand products
- Customisation capability
- 60k product range shipped across North America
- Products also now being sold through showrooms

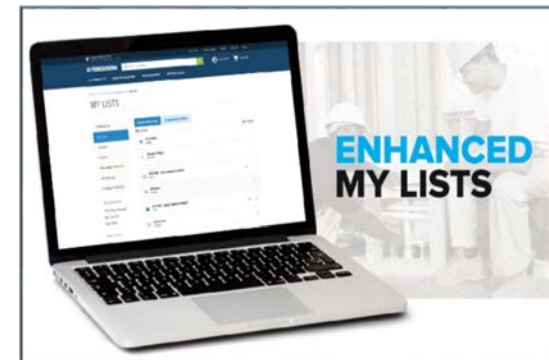


Own brand penetration: 5.4% to 6.8% over two years

E-commerce development

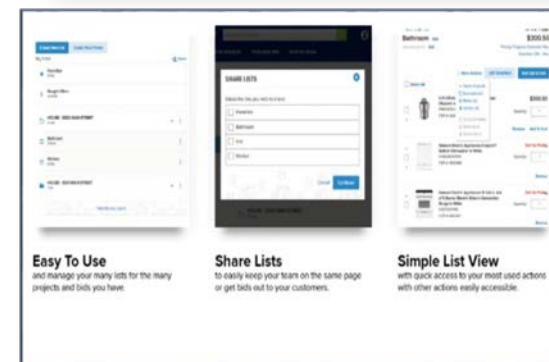
B2B

- Successful customer migration to the new Ferguson.com platform
- Personalising site experience by line of business to increase loyalty
- Promoting omni-channel services to drive efficiency
- Investing and expanding solutions for mobile



B2C

- Building a new e-commerce support center in Atlanta leveraging IT, marketing, and finance
- Migrating brands to common platform to increase efficiencies
- Investing in augmented reality and content to enhance customer experience



E-commerce now 23% of US revenue

Key priorities

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Progress on UK strategy

- Category management
 - Completed definition of new 27,000 SKU range
 - Cleansing “out-of-range” stock
 - Continued development of own brand capability
 - Introduced fixed pricing on a range of every day items
- Invested in technology platform
 - Sign-on-glass technology roll out completed this spring
 - Implemented demand management software
 - New platform supporting e-commerce growth
- Improved logistics and supply chain
 - Completed in-night replenishment across network
 - Consolidation of final mile delivery in progress
- Mark Higson appointed Managing Director 1 March 2018



Acceleration of UK restructuring

- Exited \$280m of unsustainable, low margin business
- Closed BCG wholesale business and exited unprofitable accounts
- Consolidated e-commerce platforms
- Announced further 60 branch closures in December
- Cost base reduced by \$30m pa from February
- Reducing supply chain capacity with closure of 420,000 sq ft NDC
- Announced downsizing and relocation of head office
- Accelerating execution has been a short term drag on P&L
 - \$3m incremental cost of moving to in-night deliveries to enhance service proposition
 - \$4m of gross margin foregone by eliminating 'opportunistic' calendar year end purchasing



Continue to focus on profitable, sustainable business and lower cost base

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Capitalise on the significant growth opportunity in Canada

- Strengthened key leadership
- Market share gains across all business units
- Key growth initiatives
 - Grow HVAC business
 - Private label expansion
 - E-commerce penetration now up to 12% of revenue
- Excellent progress on strategic objectives
 - Continued DC and logistics optimisation in Toronto and Montreal
 - Implementing demand planning technology
 - Joined Octo buying group
- Good M&A pipeline to supplement organic initiatives

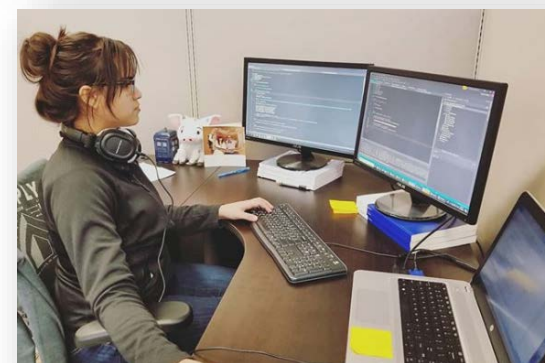


Key priorities

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Accelerate innovation

- Dedicated team and allocated resources
- Identify and test new technologies and business models
 - Investment fund to partner with interesting start ups
 - Innovation lab to explore emerging technologies
- Three areas of focus
 - Connected ecosystem e.g. platforms linking home owner to contractors
 - Enhanced content e.g. augmented reality, voice activation
 - Data and intelligence



Key priorities

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Complete Nordics exit

- Strong recovery in financial performance underpinned favourable transaction
 - H1 revenue growth of 6.3%
 - H1 trading profit up 48.2%
- Disposal summary
 - Net proceeds approx. \$1.2 billion after transaction costs
 - Competition approval received on 14 March
 - Completion expected at end of March
 - Retained approx. \$180 million of surplus property for sale



Market update and outlook

Markets

- US residential markets growing well, commercial growth is good and industrial markets have recovered
- Canadian markets are healthy
- UK markets challenging

Outlook

- Order books remain strong
- Group organic revenue growth since the end of January has continued in line with growth achieved in the second quarter, though comparators get progressively stronger through the second half

Appendix

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Regional analysis

\$m	Revenue H1 2018	Revenue H1 2017	Trading profit H1 2018	Trading profit H1 2017
USA	7,912	7,156	647	559
UK	1,354	1,277	38	44
Canada & Central Europe	761	657	41	30
Central costs	-	-	(28)	(26)
Group ongoing	10,027	9,090	698	607
Non-ongoing	-	292	-	23
Group reported	10,027	9,382	698	630

Quarterly analysis

Revenue \$m	Q1 2018	Q2 2018	H1 2018
USA	4,112	3,800	7,912
UK	679	675	1,354
Canada & Central Europe	400	361	761
Group ongoing	5,191	4,836	10,027

Trading profit \$m	Q1 2018	Q2 2018	H1 2018
USA	363	284	647
UK	21	17	38
Canada & Central Europe	24	17	41
Central costs	(14)	(14)	(28)
Group ongoing	394	304	698

Branch numbers

	Brought forward 31 July 2017	Acquired	Disposals	Net Opened / Closed	Carried forward 31 January 2018
USA	1,423	7	-	7	1,437
UK	642	-	-	(52)	590
Canada & Central Europe	245	7	-	-	252
	2,310	14	-	(45)	2,279

Headcount

	Brought forward 31 July 2017	Acquired	Disposals	Net joiners / (leavers)	Carried forward 31 January 2018
USA	23,986	235	-	804	25,025
UK	5,900	-	-	(85)	5,815
Canada & Central Europe	2,862	80	-	36	2,978
Other	103	-	-	(9)	94
	32,851	315	-	746	33,912

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Q&A

