

Results for the half year ended 31 January 2020

17 March 2020

STRONG OPERATIONAL DELIVERY IN THE FIRST HALF

\$m	H1 2020	H1 2019	Change
Statutory financial results			
Revenue	10,966	10,847	+1.1%
Profit before tax	640	679	(5.7%)
Basic earnings per share	206.7c	254.5c	
Interim dividend per share	67.5c	63.1c	+7.0%
Alternative performance measures¹			
Ongoing revenue	9,893	9,489	+4.3%
Ongoing gross margin	30.2%	30.2%	
Ongoing trading profit	782	714	+9.5%
Less impact of IFRS16	(35)	-	
Underlying trading profit	747	714	+4.6%
Headline earnings per share	245.7c	241.9c	+1.6%
Net debt : Adjusted EBITDA	1.1x	1.1x	
Trading days	127	127	-

Highlights

- Ongoing revenue 4.3% ahead of last year with continued market share gains in the US.
- US revenue growth of 5.0% and underlying trading profit growth of 5.7%.
- Good gross margin and cost control ensured trading profit growth outpaced revenue growth.
- Good operating cash generation and the Group has a strong balance sheet and liquidity position.
- Interim dividend of 67.5c up 7.0%.
- Invested \$141 million in acquisitions in the first half, including S.W. Anderson and since the end of the period Columbia Pipe and Supply.
- The Board expects to make a further announcement on listing assessment later in the spring of 2020.
- UK demerger on track for completion this calendar year.

1) The Group uses Alternative Performance Measures (“APMs”), which are not defined or specified under IFRS, to provide additional helpful information. These measures are not considered to be a substitute for IFRS measures and are consistent with how business performance is planned, reported and assessed internally by management and the Board. For further information on APMs, including a description of our policy, purpose, definitions and reconciliations to equivalent IFRS statutory measures see note 2 on pages 18 to 22.

Results for the half year ended 31 January 2020

Kevin Murphy, Group Chief Executive, commented:

“Our focus has remained on serving our customers and making their projects more successful because they worked with Ferguson. Given the markets we serve remained flat we were pleased with our progress in the first half and we continued to generate above market revenue growth in the major US business units. This, alongside continued operational delivery including tight cost control, ensured we delivered robust trading profit growth and good cash generation.

“In response to the outbreak of the Coronavirus (COVID-19) in recent weeks the Company is taking steps to mitigate any potential impacts. We are following the guidance of governmental health agencies including the World Health Organization and the Center for Disease Control. Our immediate priority is safeguarding the health and wellbeing of our associates, supporting our business and customers and helping the communities in which we operate.

“Given the strength of our first half results, we had intended to confirm our full-year trading profit outlook for 2020. However, due to the dynamic situation unfolding with COVID-19 it is too early to understand its impact on current trading. Recent government actions to contain the spread of COVID-19 and societal reactions, alongside any potential actions we will take to mitigate them are not reflected in existing market forecasts and it is too early to quantify them. 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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In light of current restrictions on travel as a result of Coronavirus (COVID-19) Ferguson has decided to change its usual Half Year Results presentation to a conference call. The call hosted by Kevin Murphy, Chief Executive and Mike Powell, Chief Financial Officer will commence at 11:00 UK time (07:00 US EST) today. The call will be recorded and available on our website after the event www.fergusonplc.com.

Dial in number	United Kingdom	+44 (0)20 3936 2999
	United States	+1 646 664 1960

Ask for the Ferguson call quoting 007088.

To register for the webcast please click [here](#).

Financial results

Ferguson plc delivered a strong trading result in the first half. Markets in the US remained flat and the businesses continued to take market share.

Statutory results

Revenue of \$10,966 million (2019: \$10,847 million) was 1.1% ahead of last year. Statutory profit before tax was \$640 million (2019: \$679 million), lower due to exceptional charges (\$19 million) and the impairment of an associate (\$22 million) in the current year partially offset by the adoption of IFRS 16 in the period which increased profit before tax by \$8 million. Profit for the period decreased to \$467 million (2019: \$586 million) due to the factors noted above plus an increase in the tax charge primarily as a result of Swiss tax reform and a non-recurring gain from discontinued operations in the prior period (\$46 million).

Alternative performance measures

Ongoing revenue of \$9,893 million (2019: \$9,489 million) was 4.3% ahead at constant exchange rates and 2.0% ahead on an organic basis. Inflation in the first half was approximately 1%. Ongoing gross margins of 30.2% (2019: 30.2%) were in line with last year. The cost base was well controlled with operating expenses in the ongoing business 3.9% higher which included 2.1% from acquisitions.

Underlying trading profit was \$747 million (2019: \$714 million), 4.6% ahead of last year outpacing revenue growth. Foreign exchange movements had an immaterial impact on revenue and trading profit.

Update on Group strategy

Our strategy is unchanged. We continue to focus on driving all our resources and knowledge to serve our customers and make their projects better because they worked with Ferguson. To achieve this we will attract, retain and develop the very best associates in the industry who act as trusted advisors to our customers. We will give customers an unrivalled choice of products sourcing the leading brands in all our categories, including the highest quality own brands. We will drive scale in our business ensuring customers have access to products and advice where and when they need it, offering them an omni-channel experience. We will use technology to make our business more productive and equip our associates with the tools to make them more effective, while we constantly look to innovate and disrupt ourselves.

Operating and financial review

Further details of the financial performance and market conditions in the Group's businesses are set out below.

First half regional analysis

US\$ millions	Revenue H1 2020	Revenue H1 2019	Change	Trading profit H1 2020	Less impact of IFRS16 H1 2020	Underlying Trading profit H1 2020	Trading profit H1 2019	Underlying Change
US	9,318	8,874	+5.0%	774	(34)	740	700	+5.7%
Canada	575	615	(6.5%)	30	(1)	29	39	(25.6%)
Central costs	-	-		(22)	-	(22)	(25)	
Ongoing Group	9,893	9,489	+4.3%	782	(35)	747	714	+4.6%
UK (non-ongoing) ¹	1,073	1,126	(4.7%)	30	-	30	32	(6.3%)

1) H1 2019 UK (non-ongoing) numbers are presented excluding soak.com

Quarterly organic revenue growth

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	H1 2020
USA	+9.6%	+9.7%	+3.3%	+3.0%	+3.1%	+2.1%	+2.6%
Canada	+3.3%	+0.5%	(2.9%)	(5.2%)	(6.4%)	(6.7%)	(6.6%)
Ongoing Group	+9.2%	+9.1%	+3.0%	+2.5%	+2.5%	+1.6%	+2.0%

USA

The US business grew revenue by 5.0% which included acquisition growth of 2.4%. Price inflation was about 1%. US market growth was broadly flat with all of our business units except Industrial generating organic revenue growth in the first half. Blended Branches achieved 3.7% revenue growth overall. The East grew significantly boosted by acquisitions, with moderate growth in the Central and West. Waterworks revenue growth of 12.8% was principally driven by strong growth in the single-family residential sector. HVAC revenue growth was good and eBusiness revenues were up. Industrial revenues were lower in line with slightly weaker markets.

The organic revenue growth by end market was as follows:

	% of US revenue	Market growth	Organic revenue growth
Residential	~50%	+1%	+3%
Commercial	~35%	+1%	+3%
Civil / Infrastructure	~7%	+3%	+10%
Industrial	~8%	(6%)	(7%)
		Flat	+2.6%

Gross margins remained strong and operating expenses were well controlled and included labor cost inflation of approximately 2%. As a result, underlying trading profit of \$740 million (2019: \$700 million) was 5.7% ahead of last year and outpaced total revenue growth. The underlying trading margin was 7.9% (2019: 7.9%).

Two bolt-on acquisitions were completed in the first half with total annualised revenues of approximately \$98 million. As previously announced these included S.W. Anderson and Process Instruments & Controls. After the half year end we acquired Columbia Pipe & Supply which specializes in PVF, commercial mechanical, commercial plumbing, industrial, valve automation, engineered products and hydronics. The business operates from 16 locations in five states in the Midwest region and generated revenue of \$220 million in the year ended 31 December 2019.

Canada

In Canada, revenue was 6.5% lower with our markets remaining challenging throughout the period including inflation of approximately 2%. Gross margins were slightly lower than last year but operating expenses were well controlled. Underlying trading profit of \$29 million was \$10 million behind last year and the underlying trading margin was 5.0% (2019: 6.3%) with the decline driven by lower revenues.

Central costs

Central costs in the first half were \$22 million, \$3 million lower than last year.

UK (non-ongoing operations)

Revenue declined 4.7% in the UK, primarily as a result of a deliberate move away from low margin sales, partially offset by 2.1% of growth from acquisitions. Inflation was about 1%. Repairs, maintenance and improvement markets were subdued. Gross margins were ahead due to improved product mix. Underlying trading profit of \$30 million was \$2 million lower than last year, however performance in the second quarter improved with trading profit of \$15 million, up \$2 million year-over-year. The trading margin was 2.8% (2019: 2.8%). We continue to actively manage the cost base in the UK and exceptional costs of \$9 million were incurred, principally relating to the closure of a distribution centre in Worcester.

Exceptional items

A total exceptional charge of \$19 million (2019: exceptional gain of \$3 million) included \$8 million of demerger costs relating to the UK business; \$9 million principally related to the closure of a UK distribution centre; and \$2 million of costs relating to the Group's listing consultation.

Finance costs

Net finance costs before exceptional items were \$70 million (2019: \$35 million), with \$27 million of the increase due to the adoption of IFRS16.

Tax

The Group incurred a tax charge of \$173 million (2019: \$139 million) on profit before tax of \$640 million (2019: \$679 million). This includes an ongoing tax charge of \$181 million (2019: \$155 million) which equates to an ongoing effective tax rate of 25.4% (2019: 22.8%) on the ongoing trading profit less net finance costs of \$712 million (2019: \$679 million). The tax rate increased, as previously guided, during the first half as a result of Swiss tax reform. The ongoing effective tax rate is in line with technical guidance for the full year.

Earnings per share

Total basic earnings per share were 206.7 cents (2019: 254.5 cents). Headline earnings per share increased by 1.6% to 245.7 cents (2019: 241.9 cents) mainly due to the increase in trading profit and the lower share count as a result of last year's share buy back programme, partially offset by a higher effective tax rate.

Cash flow

The Group continued to generate good cash flows with cash generated from operations of \$465 million¹ (2019: \$287 million), after a seasonal working capital outflow of \$381 million (2019: \$503 million). Net interest¹ and tax amounted to \$215 million (2019: \$166 million) and acquisitions amounted to \$141 million (2019: \$589 million). Capital investment was \$164 million (2019: \$244 million). Ordinary dividends paid amounted to \$327 million (2019: \$300 million) and we completed \$350 million (2019: \$nil) of share buy backs.

1) Cash generated from operations is presented excluding IFRS16. IFRS 16 has no impact on net Cash Flow, but does increase cash generated from operations by \$171 million, offset by increased interest of \$27 million and capital lease payments of \$144 million.

Net debt and pensions

The Group's net debt, which excludes leases, at 31 January 2020 was \$1,944 million (31 January 2019: \$1,885 million¹) and the ratio of net debt to the last twelve months adjusted EBITDA was 1.1x (31 January 2019: 1.1x). The Group has a strong liquidity position and aims to operate with a net debt to adjusted EBITDA ratio of between 1x and 2x.

The IFRS16 lease liability recognised on the balance sheet as at 31 January 2020 was \$1,445 million.

On 10 March 2020 the Group entered into a new \$1.1 billion revolving credit facility, provided by a syndicate of eleven banks, with an initial maturity of five years and the option for the Group to apply for two further one year maturity extensions. This facility will replace the existing £800 million revolving credit facility which has now been cancelled.

At 31 January 2020 the Group's net pension position was an asset of \$113 million (2019: net asset of \$154 million) with the decline due to lower discount rates on the liability.

Shareholder returns

In November 2019 the Group paid a final dividend of 145.1 cents per share (2019: 131.9 cents per share) amounting to \$327 million. This included an upwards rebasing of 10% reflecting the Group's excellent track record of cash generation and the ongoing strength of the balance sheet. An interim dividend of 67.5 cents per share (2019: 63.1 cents per share) representing an increase of 7% will be paid on 30 April 2020 to shareholders on the register on 27 March 2020. In the six months to 31 January 2020, the Company bought back \$350 million of shares. On 4 February we announced a further \$500 million share buy back program and in the period to 13 March 2020 we bought back \$96 million of shares.

Board changes

On 19 November 2019 Kevin Murphy succeeded John Martin as Group Chief Executive. Kevin, a US national based in Virginia, was appointed CEO of Ferguson Enterprises in the USA and joined the Board in August 2017. Under his leadership Ferguson has continued to gain market share and generate profitable growth. He has a wealth of operational experience gained in the plumbing and heating industry in the US. He has a strong track record of delivery having previously served as Chief Operating Officer of Ferguson Enterprises for 10 years after joining the business through an acquisition of his family's Waterworks business Midwest Pipe and Supply in 1999.

Following the Annual General Meeting (AGM) in November 2019, Geoff Drabble succeeded Gareth Davis as Chairman. Geoff joins Ferguson following a 12 year period as Chief Executive of Ashtead Group plc, 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. His record of value creation is outstanding and he brings a wealth of experience in the distribution, technology and manufacturing sectors, particularly in the USA.

Darren Shapland stood down as a Non Executive Director at the AGM in November 2019 and Gareth Davis stood down as a Non Executive Director in January 2020.

1) 2019 net debt includes \$5 million of finance leases which have not been adjusted

UK demerger

The demerger process for Wolseley UK is on track and we expect to complete the transaction within the current calendar year.

The Board is delighted that Gareth Davis has agreed to be Chairman of the demerged Group once completed. Gareth currently serves as Chairman of DS Smith plc, as Deputy Chairman of M&C Saatchi plc and as a Non Executive Director for Gresham House plc. He was previously Chairman of Ferguson plc for nearly 9 years, Chairman of William Hill plc and Group Chief Executive of Imperial Tobacco Group plc. Gareth is in the process of forming a Board for the new company which will be called 'Wolseley Group plc'.

In January 2020 Simon Oakland was appointed as the Chief Executive Officer of Wolseley UK after a short period as the interim. Simon brings extensive experience in strategy, finance and operations to the role and was formerly CEO of Ferguson's Canadian business and Head of Corporate Development. He joined Ferguson as Managing Director of the French business before moving on to the role of Group Head of Corporate Development where he was responsible for M&A activity and corporate strategy. Prior to joining Ferguson in 2012, Simon gained valuable strategic and Board experience across a variety of sectors spanning Europe, North America and the Far East as part of a successful career in private equity, most recently as a Partner at Alchemy Partners.

Outlook

Given the strength of our first half results, we had intended to confirm our full-year trading profit outlook for 2020. However, due to the dynamic situation unfolding with COVID-19 it is too early to understand its impact on current trading. Recent government actions to contain the spread of COVID-19 and societal reactions, alongside any potential actions we will take to mitigate them are not reflected in existing market forecasts and it is too early to quantify them. 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.

Principal risks and uncertainties

The principal risks and uncertainties which affect the Group are:

New competitors and technology	Wholesale and distribution businesses in other industry sectors have been disrupted by the arrival of new competitors with lower-cost transactional business models or new technologies to aggregate demand away from incumbents. The Board is attuned to both the risks and opportunities presented by these changes and is actively engaged as the Group takes action to respond.
Market conditions	<p>This risk relates to the Group's exposure to short-term macroeconomic conditions and market cycles in our sector (i.e. periodic market downturns). Some of the factors driving market growth are beyond the Group's control and are difficult to forecast.</p> <p>The Company is closely monitoring the outbreak of the COVID-19 coronavirus and taking prudent steps to mitigate any potential impacts to the health and safety of our associates or to the successful operation of our business. We are following the guidance of the World Health Organization and other governmental health agencies, including with respect to travel restrictions. The Company remains prepared to implement appropriate mitigation strategies to minimize any potential business disruption.</p>
Pressure on margins	The Group's ability to maintain attractive profit margins can be affected by a range of factors. These include levels of demand and competition in our markets, the arrival of new competitors with new business models, the flexibility of the Group's cost base, changes in the cost and availability of commodities or goods purchased, the imposition of new or increased governmental tariffs on international sources of supply, customer or supplier consolidation or manufacturers shipping directly to customers. There is a risk that the Group may not identify or respond effectively to changes in these factors. If it fails to do so, the amount of profit generated by the Group could be significantly reduced.
Information and technology	The Group has a clearly defined global technology strategy and roadmap. Technology systems and data are fundamental to the future growth and success of the Group. Information Technology (IT) risks are categorised as strategic and operational. Strategic risks are threats that could prevent execution of the IT strategic plan such as inadequate leadership, poor allocation/management of resources and/or poor execution of the organisational change of management necessary to adopt and apply new business processes. Operational risks include business disruption resulting from system failures, fraud or criminal activity. This includes security threats and/or failures in the ability of the organisation to operate, recover and restore operations after such disruptions. While cyber security incidents encountered by Group businesses to date have resulted in minimal impact, this risk continues to persist and evolve.
Health and safety	The nature of Ferguson's operations can expose its associates, contractors, customers, suppliers and other individuals to health and safety risks. Health and safety incidents can lead to loss of life or severe injuries.
Regulations	The Group's operations are affected by various statutes, regulations and standards in the countries and markets in which it operates. The amount of such regulation and the penalties can vary. While the Group is not engaged in a highly regulated industry, it is subject to the laws governing businesses generally, including laws relating to competition, product safety, data protection, labour

and employment practices, accounting and tax standards, international trade, fraud, bribery and corruption, land usage, the environment, health and safety, transportation and other matters. Violations of certain laws and regulations may result in significant fines and penalties and damage to the Group's reputation.

Talent management and retention As the Group develops new business models and new ways of working, it needs to develop suitable skill-sets within the organisation. Furthermore, as the Group continues to execute a number of strategic change programmes, it is important that existing skill-sets and talent are retained. Failure to do so could delay the execution of strategic change programmes, result in a loss of "corporate memory" and reduce the Group's supply of future leaders.

The Group faces many other risks which, although important and subject to regular review, have been assessed as less significant and are not listed here. These include, for example, natural catastrophe and business interruption risks and certain financial risks.

Statement of Directors' responsibilities

The Directors confirm, to the best of their knowledge, that these condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related party transactions described in the last Annual Report and Accounts.

A list of current Directors is maintained on the Ferguson plc website: www.fergusonplc.com.

By order of the Board,

Kevin Murphy

Group Chief Executive

Mike Powell

Group Chief Financial Officer

Notes to statement

1. 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.

2. Timetable for the interim dividend

The timetable for payment of the interim dividend is as follows:

Ex dividend date: 26 March 2020

Record date: 27 March 2020

Payment date: 30 April 2020

The dividend is declared in US dollars but will be paid in sterling, shareholders can elect to receive the dividend in US dollars. A dividend reinvestment plan is in operation. Those shareholders who have not elected to receive dividends in US dollars or elected to participate in the dividend reinvestment plan, and who would like to make an election with respect to the 2020 interim dividend, may do so by contacting Equiniti on 0371 384 2934 (or if outside the UK +44 (0) 121 415 7011). The last day for election for the proposed interim dividend is 7 April 2020 and any requests should be made in good time ahead of that date.

3. Legal disclaimer

Certain information included in this announcement is forward-looking and involves known and unknown risks, assumptions and uncertainties that could cause actual results or outcomes to differ from those expressed or implied in any forward-looking statement. These forward-looking statements are based on the Company's current belief and expectations about future events and 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, prospects, growth, strategies, expected expenditures and divestments, risks associated with changes in economic conditions, the strength of the plumbing and heating market in North America and Europe, fluctuations in product prices and changes in exchange and interest rates. Forward-looking statements are sometimes identified by the use of forward-looking terminology, including terms such as "believes", "estimates", "continues", "anticipates", "expects", "forecasts", "intends", "plans", "projects", "goal", "target", "aim", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations thereon or comparable terminology. Forward-looking statements are not guarantees of future performance and actual events or results may differ materially from any estimates or forecasts indicated, expressed or implied in such forward looking statements. 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 these forward-looking statements, which speak only as at the date of this announcement. 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 applicable law, (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, change in 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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Condensed consolidated income statement (unaudited)

Half year to 31 January 2020

Half year to 31 January	Notes	2020			2019		
		Before exceptional items \$m	Exceptional items (note 4) \$m	Total \$m	Before exceptional items \$m	Exceptional items (note 4) \$m	Total \$m
<i>Continuing operations</i>							
Revenue	3	10,966	–	10,966	10,847	–	10,847
Cost of sales		(7,722)	(2)	(7,724)	(7,653)	(1)	(7,654)
Gross profit		3,244	(2)	3,242	3,194	(1)	3,193
Operating costs:							
amortisation of acquired intangible assets	9	(60)	–	(60)	(44)	–	(44)
other		(2,432)	(17)	(2,449)	(2,441)	1	(2,440)
Operating costs		(2,492)	(17)	(2,509)	(2,485)	1	(2,484)
Operating profit	3	752	(19)	733	709	–	709
Net finance costs	5	(70)	–	(70)	(35)	–	(35)
Share of (loss)/profit after tax of associates		(1)	–	(1)	2	–	2
Impairment of interests in associates		(22)	–	(22)	–	–	–
Gain on disposal of interests in associates		–	–	–	–	3	3
Profit before tax		659	(19)	640	676	3	679
Tax	6	(175)	2	(173)	(143)	4	(139)
Profit from continuing operations		484	(17)	467	533	7	540
Profit from discontinued operations		(1)	1	–	1	45	46
Profit for the period		483	(16)	467	534	52	586

Earnings per share

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Continuing operations and discontinued operations

Basic earnings per share	206.7c	254.5c
Diluted earnings per share	205.5c	252.8c
<i>Continuing operations only</i>		
Basic earnings per share	206.7c	234.5c
Diluted earnings per share	205.5c	233.0c

Alternative performance measures

Underlying trading profit from ongoing operations	2	747	714
Underlying trading profit from non-ongoing operations	2	30	39
Underlying trading profit from continuing operations	2, 3	777	753
Adjusted EBITDA from continuing operations	2	872	842
Headline earnings per share	2, 8	245.7c	241.9c

The Group adopted IFRS 16 “Leases” on 1 August 2019 applying the modified retrospective transition method. As a result, comparatives have not been restated and are shown on an IAS 17 “Leases” basis. See note 1 for further details.

Condensed consolidated statement of comprehensive income (unaudited)

Half year to 31 January 2020

Half year to 31 January	2020 \$m	2019 \$m
Profit for the period	467	586
Other comprehensive income/(expense):		
Items that may be reclassified subsequently to profit or loss:		
Exchange gain/(loss) on translation of international operations ¹	74	(9)
Exchange (loss)/gain on translation of borrowings and derivatives designated as hedges of international operations ¹	(32)	4
Cumulative currency translation differences on disposal of interests in associates ¹	–	7
Items that will not be reclassified subsequently to profit or loss:		
Actuarial loss on retirement benefit plans ²	(52)	(32)
Income tax credit/(charge) on retirement benefit plans ²	9	(1)
Other comprehensive expense for the period	(1)	(31)
Total comprehensive income for the period	466	555

1. Impacting the translation reserve.

2. Impacting retained earnings.

Condensed consolidated statement of changes in equity (unaudited)

Notes	Share capital \$m	Share premium \$m	Translation reserve \$m	Treasury shares \$m	Reserves		Non-controlling interest \$m	Total equity \$m
					Own shares \$m	Retained earnings \$m		
	–	–	–	–	–	467	–	467
	–	–	42	–	–	(43)	–	(1)
	–	–	42	–	–	424	–	466
	–	–	–	–	(26)	–	–	(26)
	–	–	–	–	39	(39)	–	–
	–	–	–	–	–	21	–	21
	–	–	–	–	–	(3)	–	(3)
	–	–	–	(191)	–	–	–	(191)
	–	–	–	13	–	(11)	–	2
7	–	–	–	–	–	(327)	–	(327)
	–	–	42	(178)	13	65	–	(58)
	30	9	(598)	(305)	(102)	5,316	–	4,350
1	–	–	–	–	–	(187)	–	(187)
	30	9	(598)	(305)	(102)	5,129	–	4,163
	30	9	(556)	(483)	(89)	5,194	–	4,105

Notes	Share capital \$m	Share premium \$m	Translation reserve \$m	Treasury shares \$m	Reserves		Non-controlling interest \$m	Total equity \$m
					Own shares \$m	Retained earnings \$m		
	–	–	–	–	–	586	–	586
	–	–	2	–	–	(33)	–	(31)
	–	–	2	–	–	553	–	555
	–	–	–	–	(38)	–	–	(38)
	–	–	–	–	25	(25)	–	–
	–	–	–	–	–	21	–	21
	–	–	–	–	–	(3)	–	(3)
	–	–	–	9	–	(8)	–	1
7	–	–	–	–	–	(303)	–	(303)
	–	–	2	9	(13)	235	–	233
	45	67	(556)	(1,380)	(90)	5,972	(1)	4,057
	45	67	(554)	(1,371)	(103)	6,207	(1)	4,290

Condensed consolidated balance sheet (unaudited)

Half year to 31 January 2020

As at 31 July 2019 \$m		Notes	As at 31 January 2020 \$m	As at 31 January 2019 \$m
Assets				
Non-current assets				
1,656	Intangible assets: goodwill	9	1,691	1,632
423	Intangible assets: other	9	451	440
–	Right of use assets	10	1,197	–
1,349	Property, plant and equipment	9	1,417	1,316
29	Interests in associates		5	41
42	Financial assets		51	38
178	Retirement benefit assets		137	171
164	Deferred tax assets		509	124
340	Trade and other receivables		363	332
10	Derivative financial assets		–	7
4,191			5,821	4,101
Current assets				
2,821	Inventories		2,970	2,915
3,213	Trade and other receivables		2,968	2,970
6	Current tax receivable		16	12
9	Financial assets		9	–
12	Derivative financial assets		22	3
1,133	Cash and cash equivalents	12	775	699
7,194			6,760	6,599
1	Assets held for sale		2	51
11,386	Total assets		12,583	10,751
Liabilities				
Current liabilities				
3,797	Trade and other payables		3,120	3,034
251	Current tax payable		240	189
52	Borrowings	15	722	302
–	Lease liabilities	10	265	–
2	Obligations under finance leases		–	2
79	Provisions		82	89
–	Retirement benefit obligations		6	6
4,181			4,435	3,622
Non-current liabilities				
292	Trade and other payables		276	295
–	Derivative financial liabilities		–	7
2,292	Borrowings	15	2,019	2,280
–	Lease liabilities	10	1,180	–
4	Obligations under finance leases		–	3
56	Deferred tax liabilities		369	75
186	Provisions		181	168
25	Retirement benefit obligations		18	11
2,855			4,043	2,839
7,036	Total liabilities		8,478	6,461
4,350	Net assets		4,105	4,290
Equity				
30	Share capital		30	45
9	Share premium		9	67
4,311	Reserves		4,066	4,179
4,350	Equity attributable to shareholders of the Company		4,105	4,291
–	Non-controlling interest		–	(1)
4,350	Total equity		4,105	4,290

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed consolidated cash flow statement (unaudited)

Half year to 31 January 2020

Half year to 31 January	Notes	2020 \$m	2019 \$m
Cash flows from operating activities			
Cash generated from operations	11	636	287
Net interest paid		(72)	(38)
Tax paid		(170)	(128)
Net cash generated from operating activities		394	121
Cash flows from investing activities			
Acquisitions of businesses (net of cash acquired)	13	(141)	(589)
Disposals of businesses (net of cash disposed of)		–	199
Purchases of property, plant and equipment		(145)	(230)
Proceeds from sale of property, plant and equipment and assets held for sale		8	38
Purchases of intangible assets		(19)	(14)
Acquisition of associates and other investments		(3)	(9)
Disposal of interests in associates		–	18
Net cash used in investing activities		(300)	(587)
Cash flows from financing activities			
Purchase of own shares by Employee Benefit Trusts		(26)	(38)
Purchase of Treasury shares ¹		(350)	–
Proceeds from the sale of Treasury shares		2	1
Proceeds from borrowings and derivatives		154	754
Repayments of borrowings		–	(2)
Lease liability capital payments		(144)	–
Finance lease capital payments		–	(1)
Dividends paid to shareholders		(327)	(300)
Net cash (used in)/generated from financing activities		(691)	414
Net cash used		(597)	(52)
Effects of exchange rate changes		(1)	(3)
Net decrease in cash, cash equivalents and bank overdrafts		(598)	(55)
Cash, cash equivalents and bank overdrafts at the beginning of the period		1,086	458
Cash, cash equivalents and bank overdrafts at the end of the period	12	488	403

1. Purchase of Treasury shares includes a cash outflow of \$159 million which was irrevocably committed to at 31 July 2019 relating to the share buy back programme announced on 10 June 2019.

Notes to the condensed consolidated interim financial statements (unaudited)

Half year to 31 January 2020

1. Basis of preparation

The Company is incorporated in Jersey under the Companies (Jersey) Law 1991 and is headquartered in the UK.

The condensed consolidated interim financial statements for the six months ended 31 January 2020 were approved by the Board of Directors on 16 March 2020. The condensed consolidated interim financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those set out in the Group's Annual Report and Accounts for the year ended 31 July 2019, except for the adoption of IFRS 16 "Leases" on 1 August 2019.

The condensed consolidated interim financial statements are unaudited. The financial information for the year ended 31 July 2019 does not constitute the Group's statutory financial statements. The Group's statutory financial statements for that year have been filed with the Jersey Registrar of Companies and received an unqualified auditor's report.

Going concern

The condensed consolidated interim financial statements have been prepared on a going concern basis. Given the current dynamic situation unfolding with Covid-19, the Group has assessed the impact of a number of alternate scenarios including a severe short term revenue reduction and taking into account reasonable mitigating actions. The Directors of the Company are confident, on the basis of current financial projections and facilities available and after considering these downside scenarios and sensitivities, that the Group has sufficient resources for its operational needs and will remain in compliance with the financial covenants in its bank facilities for at least the next 12 months.

Accounting developments and changes

On 1 August 2019, the Group adopted IFRS 16 "Leases". The standard makes changes to the treatment of leases in the financial statements, requiring the use of a single model to recognise a lease liability and a right of use asset for all leases, including those classified as operating leases under IAS 17 "Leases", unless the underlying asset has a low value or the lease term is 12 months or less. Rental charges in the income statement previously recorded under IAS 17 are replaced with depreciation and interest charges under IFRS 16 and right of use assets will be subject to impairment reviews in accordance with IAS 36 "Impairment of Assets" replacing the previous requirement to recognise a provision for onerous lease contracts.

The Group has applied the modified retrospective transition method and has not restated comparatives for the six months ended 31 January 2019 or the year ended 31 July 2019. For the majority of leases, the right of use asset on transition has been measured as if IFRS 16 had been applied since the commencement of the lease, discounted using the Group's incremental borrowing rate as at 1 August 2019, with the difference between the right of use asset and the lease liability taken to retained earnings. For the remaining leases which relate to the Group's US fleet, where sufficient historic information has not been available, the right of use asset has been measured as equal to the lease liability on transition.

The Group has elected to apply the following practical expedients on transition:

- To not reassess whether contracts are, or contain, a lease at the date of initial application;
- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessment of whether leases are onerous in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" immediately before the date of initial application as an alternative to performing an impairment review;
- Election to not apply the measurement requirements of the standard to leases where the term ends within 12 months of the date of initial application;
- Exclusion of initial direct costs from the measurement of the right of use asset at the date of initial application; and
- Use of hindsight, such as in determining the lease term.

Notes to the condensed consolidated interim financial statements (unaudited)

Half year to 31 January 2020

1. Basis of preparation continued

The impact of the adoption of IFRS 16 on the income statement in the six months ended 31 January 2020 was to decrease rental costs by \$166 million, increase depreciation by \$131 million and increase finance costs by \$27 million. The impact on the cash flow statement was to increase cash generated from operations by \$171 million, increase interest paid by \$27 million and increase lease liability capital payments by \$144 million. There was no impact on the net decrease in cash, cash equivalents and bank overdrafts.

The impact of the adoption of IFRS 16 on the opening balance sheet at 1 August 2019 was as follows:

	\$m
Right of use assets	1,220
Property, plant and equipment	(6)
Net deferred tax assets	69
Lease liabilities	(1,481)
Obligations under finance leases	6
Other	5
Net retained earnings adjustment	(187)

A reconciliation of the operating lease commitments previously reported under IAS 17 in the Group's Annual Report and Accounts for the year ended 31 July 2019 to the lease liability at 1 August 2019 under IFRS 16 is as follows:

	\$m
Operating lease commitments at 31 July 2019	1,126
Leases of low value assets	(20)
Long-term leases that expire before 31 July 2020	(12)
Reasonably certain extension or termination options	564
Effect from discounting ¹	(183)
Lease liabilities due to initial application of IFRS 16 at 1 August 2019	1,475
Lease liabilities from finance leases under IAS 17 at 31 July 2019	6
Total lease liabilities at 1 August 2019	1,481

1. The weighted average incremental borrowing rate applied by the Group upon transition was 3.5 per cent.

Leases accounting policy applied from 1 August 2019

The Group enters into leases in the normal course of its business, these principally relate to property for the Group's branches, distribution centres and offices which have varying terms including extension and termination options and periodic rent reviews.

The Group recognises a right of use asset and a lease liability at the lease commencement date. Non-lease components of a contract are not separated from lease components and instead are accounted for as a single lease component.

Lease liabilities are initially measured at the present value of lease payments using the interest rate implicit in the lease, or if this is not readily available, at the Group's incremental borrowing rate. Lease payments comprise fixed payments, variable payments that depend on an index or rate, payments expected under residual value guarantees, and payments under purchase and termination options which are reasonably certain to be exercised. Lease terms are determined as the non-cancellable period of a lease adjusted for options to extend or terminate a lease that are reasonably certain to be exercised, management judgement is required in making this determination.

Lease liabilities are subsequently measured at amortised cost using the effective interest method. Lease liabilities are remeasured when there is a change in future lease payments as a result of a rent review or a change in an index or rate, or if there is a change in the assessment of whether it is reasonably certain that extension or termination options will be exercised.

Notes to the condensed consolidated interim financial statements (unaudited)

Half year to 31 January 2020

1. Basis of preparation continued

Right of use assets are carried at cost less accumulated depreciation and impairment losses and any subsequent remeasurement of the lease liability. Initial cost comprises the lease liability adjusted for lease payments at or before the commencement date, lease incentives received, initial direct costs and an estimate of restoration costs. Right of use assets are depreciated on a straight-line basis to the earlier of the end of the useful life of the asset or the end of the lease term and tested for impairment if an indicator exists.

Leases that have a term of 12 months or less and leases for which the underlying asset is of low value are recognised as an expense on a straight-line basis over the lease term.

Critical accounting judgements – Leases

Property leases entered into by the Group typically include extension and termination options to provide operational flexibility to the Group. Management exercises significant judgement in determining whether these options are reasonably certain to be exercised when determining the lease term. In making these judgements management considers the remaining lease term, future business plans and other relevant economic factors.

2. Alternative performance measures

The Group uses alternative performance measures (“APMs”), which are not defined or specified under IFRS. These APMs, which are not considered to be a substitute for IFRS measures, provide additional helpful information. APMs are consistent with how business performance is planned, reported and assessed internally by management and the Board and provide comparable information across the Group.

Ongoing and non-ongoing

The Group reports some financial measures net of businesses that have been or may be disposed of, closed or classified as held for sale and uses the following terminology:

Non-ongoing operations are businesses which do not meet the criteria to be classified as discontinued operations under IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, which may be disposed of, closed or classified as held for sale. In 2020, the Group’s UK business has been classified as non-ongoing. All comparatives have been restated for consistency and comparability.

Ongoing operations are continuing operations excluding non-ongoing operations.

Organic revenue growth

Management uses organic revenue growth as it provides a consistent measure of the percentage increase/decrease in revenue year-on-year, excluding the effect of currency exchange rate fluctuations, trading days, acquisitions and disposals.

A reconciliation of revenue using the above APMs to statutory revenue is provided below:

Revenue	Ongoing		Non-ongoing	Continuing
	\$m	% growth	\$m	\$m
Reported 2019 restated	9,489		1,358	10,847
Impact of exchange rate movements	(1)		(20)	(21)
Reported 2019 to 2020 exchange rates	9,488		1,338	10,826
Organic growth	194	2.0	(58)	136
Acquisitions	211	2.3	23	234
Disposals	–	–	(230)	(230)
Reported 2020	9,893	4.3	1,073	10,966

Notes to the condensed consolidated interim financial statements (unaudited)

Half year to 31 January 2020

2. Alternative performance measures continued

Exceptional items

Exceptional items are those which are considered significant by virtue of their nature, size or incidence. These items are presented as exceptional within their relevant income statement category to assist in the understanding of the trading and financial results of the Group as these types of cost/credit do not form part of the trading business.

Examples of items that are considered by the Directors for designation as exceptional items include, but are not limited to:

- restructuring costs within a segment which are both material and incurred as part of a significant change in strategy or due to the closure of a large part of a business and are not expected to be repeated on a regular basis;
- significant costs incurred as part of the integration of an acquired business and which are considered to be material;
- gains or losses on disposals of businesses are considered to be exceptional in nature as they do not reflect the performance of the trading business;
- material costs or credits arising as a result of regulatory and litigation matters;
- gains or losses arising on significant changes to, or closures of, defined benefit pension plans are considered to be exceptional in nature as they do not reflect the performance of the trading business; and
- other items which are material and considered to be non-recurring in nature and/or are not as a result of the trading activities of the business.

If provisions have been made for exceptional items in previous years, any reversal of these provisions is treated as exceptional.

Exceptional items for the current and prior period are disclosed in note 4.

Ongoing gross margin

The ratio of ongoing gross profit, excluding exceptional items, to ongoing revenue. Ongoing gross margin is used by management for assessing business unit performance and it is a key performance indicator for the Group. A reconciliation of ongoing gross margin is provided below:

	2020			Restated 2019		
	Gross profit \$m	Revenue \$m	Ongoing gross margin %	Gross profit \$m	Revenue \$m	Ongoing gross margin %
Continuing	3,242	10,966		3,193	10,847	
Non-ongoing	(257)	(1,073)		(324)	(1,358)	
Exceptional items	2	–		1	–	
Ongoing excluding exceptional items	2,987	9,893	30.2	2,870	9,489	30.2

Notes to the condensed consolidated interim financial statements (unaudited)

Half year to 31 January 2020

2. Alternative performance measures continued

Trading profit/underlying trading profit and ongoing trading margin/underlying ongoing trading margin

Trading profit is defined as operating profit before exceptional items and amortisation of acquired intangible assets. Trading profit is used as a performance measure because it excludes costs and other items that do not form part of the trading business. Underlying trading profit is defined as trading profit excluding the impact of IFRS 16.

Ongoing trading margin is the ratio of ongoing trading profit to ongoing revenue and is used to assess profitability and is a key performance indicator for the Group. Underlying ongoing trading margin is the ratio of underlying ongoing trading profit to ongoing revenue.

Underlying trading profit and underlying ongoing trading margin are presented to allow better comparison between the six months ended 31 January 2020 prepared under IFRS 16 and the six months ended 31 January 2019 prepared under IAS 17. The expectation is that these APMs will only be presented in the year ending 31 July 2020.

A reconciliation of underlying trading profit and trading profit to statutory operating profit is provided below:

	2020			Restated 2019		
	Ongoing \$m	Non-ongoing \$m	Continuing \$m	Ongoing \$m	Non-ongoing \$m	Continuing \$m
Trading profit 2019 restated	714	39	753			
Growth	33	(9)	24			
Underlying trading profit	747	30	777	714	39	753
Impact of IFRS 16	35	–	35	–	–	–
Trading profit	782	30	812	714	39	753
Amortisation of acquired intangible assets	(51)	(9)	(60)	(43)	(1)	(44)
Exceptional items	(10)	(9)	(19)	(8)	8	–
Operating profit	721	12	733	663	46	709

Revenue, trading profit/underlying trading profit and trading margin/underlying trading margin by reportable segment and the calculation of ongoing trading margin and underlying ongoing trading margin are shown below. For information on our reportable segments see note 3.

	Revenue		Trading profit/(loss)	Impact of IFRS 16	Underlying trading profit/(loss)	Trading profit/(loss)	Trading margin	Underlying trading margin	Trading margin
	2020 \$m	Restated 2019 \$m	2020 \$m	2020 \$m	2020 \$m	Restated 2019 \$m	2020 %	2020 %	Restated 2019 %
USA	9,318	8,874	774	(34)	740	700	8.3	7.9	7.9
Canada and Central Europe	575	615	30	(1)	29	39	5.2	5.0	6.3
Central costs	–	–	(22)	–	(22)	(25)	–	–	–
Total ongoing operations	9,893	9,489	782	(35)	747	714	7.9	7.6	7.5
Canada and Central Europe	–	181	–	–	–	9			
UK	1,073	1,177	30	–	30	30	2.8	2.8	2.5
Total non-ongoing operations	1,073	1,358	30	–	30	39			
Continuing operations	10,966	10,847	812	(35)	777	753			

Notes to the condensed consolidated interim financial statements (unaudited)

Half year to 31 January 2020

2. Alternative performance measures continued

Adjusted EBITDA

Adjusted EBITDA is operating profit before charges/credits relating to depreciation, amortisation, impairment, exceptional items and the impact of IFRS 16. Adjusted EBITDA is used in the net debt to adjusted EBITDA ratio to assess the appropriateness of the Group's financial gearing and excludes IFRS 16 in line with the requirements of the Group's debt covenants. A reconciliation of statutory profit for the period to adjusted EBITDA is provided below:

	2020			2019		
	Continuing \$m	Discontinued \$m	Group \$m	Continuing \$m	Discontinued \$m	Group \$m
Profit for the period	467	–	467	540	46	586
Exceptional items (net of tax)	17	(1)	16	(7)	(45)	(52)
Tax	175	6	181	143	1	144
Share of loss/(profit) after tax of associates	1	–	1	(2)	–	(2)
Impairment of interests in associates	22	–	22	–	–	–
Net finance costs	70	(1)	69	35	–	35
Amortisation of acquired intangible assets	60	–	60	44	–	44
Trading profit	812	4	816	753	2	755
Impact of IFRS 16	(35)	–	(35)	–	–	–
Underlying trading profit	777	4	781	753	2	755
Depreciation and impairment of property, plant and equipment	78	–	78	73	–	73
Amortisation of non-acquired intangible assets	17	–	17	16	–	16
Adjusted EBITDA	872	4	876	842	2	844

Ongoing effective tax rate

The ongoing effective tax rate is the ratio of the ongoing tax charge to ongoing profit before tax and is used as a measure of the tax rate of the ongoing business.

Half year to 31 January	2020 \$m	Restated 2019 \$m
Tax charge in relation to continuing operations	(173)	(139)
Deduct: tax credit on the amortisation of acquired intangible assets	(15)	(11)
Deduct: tax credit on exceptional items	(2)	(4)
Add back: tax charge on profits from non-ongoing operations	5	8
Add back/(deduct): non-recurring tax charges	4	(9)
Ongoing tax charge	(181)	(155)
Profit before tax and exceptional items from continuing operations	659	676
Add back: amortisation of acquired intangible assets	60	44
Add back/(deduct): share of loss/(profit) after tax and impairment of associates	23	(2)
Deduct: other profits before tax from non-ongoing operations	(30)	(39)
Ongoing profit before tax	712	679
Ongoing effective tax rate	25.4%	22.8%

Ongoing profit before tax means profit before tax, exceptional items, amortisation of acquired intangible assets, impairments of interests in associates and share of loss/profit after tax of associates for ongoing operations. Ongoing tax is the tax expense arising on ongoing profit before tax.

Notes to the condensed consolidated interim financial statements (unaudited)

Half year to 31 January 2020

2. Alternative performance measures continued

Headline profit after tax and headline earnings per share

Headline profit after tax is calculated as the profit from continuing operations after tax, before charges for amortisation of acquired intangible assets and impairments of interests in associates net of tax, exceptional items net of tax and non-recurring tax relating to changes in tax rates and other adjustments. The Group excludes amortisation and impairment of acquired intangible assets to improve the comparability between acquired and organically grown operations, as the latter cannot recognise internally generated intangible assets.

Headline earnings per share is the ratio of headline profit after tax to the weighted average number of ordinary shares in issue during the period, excluding those held by the Employee Benefit Trusts and those held by the Company as Treasury shares. Headline earnings per share is used for the purpose of setting remuneration targets for executive directors and other senior executives. See reconciliation in note 8.

Net debt

Net debt comprises cash and cash equivalents, bank overdrafts, bank and other loans, derivative financial instruments and obligations under finance leases under IAS 17. Net debt is a good indicator of the strength of the Group's balance sheet position and is used by the Group's debt providers. See reconciliation in note 12.

3. Segmental analysis

The Group's reportable segments have been determined on the same basis as, and are consistent with, those disclosed in the Annual Report and Accounts for the financial year ended 31 July 2019.

The Group's business is not highly seasonal and the Group's customer base is highly diversified, with no individually significant customer.

The changes in revenue and underlying trading profit for continuing operations between the period ended 31 January 2019 and 31 January 2020 include changes in exchange rates, disposals, acquisitions and organic change.

An analysis of the change in revenue by reportable segment for continuing operations is as follows:

	2019 \$m	Exchange \$m	Disposals \$m	Acquisitions \$m	Organic change \$m	2020 \$m
USA	8,874	–	–	210	234	9,318
UK	1,177	(20)	(49)	23	(58)	1,073
Canada and Central Europe	796	(1)	(181)	1	(40)	575
Group	10,847	(21)	(230)	234	136	10,966

An analysis of the change in underlying trading profit/(loss) by reportable segment for continuing operations is as follows:

	2019 \$m	Exchange \$m	Disposals \$m	Acquisitions \$m	Organic change \$m	2020 \$m
USA	700	–	–	8	32	740
UK	30	(1)	2	4	(5)	30
Canada and Central Europe	48	(1)	(9)	1	(10)	29
Central costs	(25)	1	–	–	2	(22)
Group	753	(1)	(7)	13	19	777

Notes to the condensed consolidated interim financial statements (unaudited)

Half year to 31 January 2020

3. Segmental analysis continued

The reconciliation between underlying trading profit/(loss), trading profit/(loss) and operating profit/(loss) by reportable segment for continuing operations is as follows:

Half year to 31 January	2020						2019				
	Underlying trading profit/(loss) \$m	Impact of IFRS 16 \$m	Trading profit/(loss) \$m	Exceptional items \$m	Amortisation of acquired intangible assets \$m	Operating profit/(loss) \$m	Trading profit/(loss) \$m	Exceptional items \$m	Amortisation of acquired intangible assets \$m	Operating profit/(loss) \$m	
USA	740	34	774	–	(50)	724	700	–	(43)	657	
UK	30	–	30	(9)	(9)	12	30	(35)	–	(5)	
Canada and Central Europe	29	1	30	–	(1)	29	48	38	(1)	85	
Central costs	(22)	–	(22)	(10)	–	(32)	(25)	(3)	–	(28)	
Group	777	35	812	(19)	(60)	733	753	–	(44)	709	
Net finance costs						(70)				(35)	
Share of (loss)/profit after tax of associates						(1)				2	
Impairment of interests in associates						(22)				–	
Gain on disposal of interests in associates						–				3	
Profit before tax						640				679	

Other information on assets and liabilities by segment is set out in the table below:

Segment assets and liabilities ¹	31 January 2020			31 January 2019		
	Segment assets \$m	Segment liabilities \$m	Segment net assets/(liabilities) \$m	Segment assets \$m	Segment liabilities \$m	Segment net assets/(liabilities) \$m
USA	9,257	(3,985)	5,272	7,928	(2,570)	5,358
UK	1,332	(738)	594	1,327	(670)	657
Canada and Central Europe	594	(252)	342	534	(178)	356
Central costs	76	(126)	(50)	94	(144)	(50)
Discontinued	2	(27)	(25)	23	(41)	(18)
Total	11,261	(5,128)	6,133	9,906	(3,603)	6,303
Tax assets and liabilities	525	(609)	(84)	136	(264)	(128)
Net cash/(debt)	797	(2,741)	(1,944)	709	(2,594)	(1,885)
Group assets/(liabilities)	12,583	(8,478)	4,105	10,751	(6,461)	4,290

1. As at 31 January 2020, segment assets includes right of use assets and segment liabilities includes lease liabilities.

Notes to the condensed consolidated interim financial statements (unaudited)

Half year to 31 January 2020

4. Exceptional items

Exceptional items included in profit before tax from continuing operations are analysed by purpose as follows:

Half year to 31 January	2020 \$m	2019 \$m
(Loss)/gain on disposal of businesses	(1)	38
Business restructuring	(8)	(31)
Other exceptional items	(10)	(7)
Total included in operating profit	(19)	–
Gain on disposal of interests in associates	–	3
Total included in profit before tax	(19)	3

For the half year to 31 January 2020, business restructuring comprises costs incurred in the UK and includes \$2 million charged to cost of sales for inventory write downs.

Other exceptional items predominantly relate to the demerger of the UK business.

5. Net finance costs

Half year to 31 January	2020 \$m	2019 \$m
Interest income	5	5
Interest expense		
Lease liability expense	(27)	–
Other	(50)	(43)
	(77)	(43)
Net interest income on retirement benefit asset	2	3
Total net finance costs	(70)	(35)

6. Tax

The tax charge on continuing operations for the half year has been calculated by applying the expected full year rate to the half year results with specific adjustments for items that distort the rate (amortisation and impairment of acquired intangible assets, share of loss/profit and impairment of interests in associates, exceptional items and non-recurring tax items). The tax charge for the period comprises:

Half year to 31 January	2020 \$m	2019 \$m
Current tax charge	(145)	(134)
Deferred tax charge: origination and reversal of temporary differences	(28)	(5)
Total tax charge	(173)	(139)

The total tax charge includes an ongoing tax charge of \$181 million (restated 2019: \$155 million). This equates to an ongoing effective tax rate of 25.4 per cent (restated 2019: 22.8 per cent) on the ongoing profit of \$712 million (restated 2019: \$679 million). See note 2 for reconciliation.

Notes to the condensed consolidated interim financial statements (unaudited)

Half year to 31 January 2020

7. Dividends

Half year to 31 January	2020 \$m	2019 \$m
Amounts recognised as distributions to equity shareholders:		
Final dividend for the year ended 31 July 2018: 131.9 cents per share	–	303
Final dividend for the year ended 31 July 2019: 145.1 cents per share	327	–
Dividends paid	327	303

Since 31 January 2020, the Directors proposed an interim dividend of 67.5 cents per share (2019: interim dividend 63.1 cents per share). This is not included as a liability in the balance sheet at 31 January 2020.

Dividends were declared in US dollars and paid in both pounds sterling and US dollars. For those shareholders paid in pounds sterling, the exchange rate used to translate the declared value was set in advance of the payment date. As a result of foreign exchange rate movements between these dates, the total amount paid (shown in the Group cash flow statement) may be different to that stated above.

8. Earnings per share

Half year to 31 January	2020			2019		
	Earnings \$m	Basic earnings per share cents	Diluted earnings per share cents	Earnings \$m	Basic earnings per share cents	Diluted earnings per share cents
Profit for the period	467	206.7	205.5	586	254.5	252.8
Profit from discontinued operations	–	–	–	(46)	(20.0)	(19.8)
Profit from continuing operations	467	206.7	205.5	540	234.5	233.0
Non-recurring tax charge/(credit) relating to changes in tax rates and other adjustments (note 2)	4	1.8		(9)	(3.9)	
Amortisation of acquired intangible assets and impairment of interests in associates	82	36.3		44	19.1	
Tax on amortisation of acquired intangible assets and impairment of interests in associates (note 2)	(15)	(6.6)		(11)	(4.8)	
Exceptional items (net of tax)	17	7.5		(7)	(3.0)	
Headline profit from continuing operations	555	245.7		557	241.9	

The weighted average number of ordinary shares in issue during the period, excluding those held by Employee Benefit Trusts and those held by the Company as Treasury shares, was 225.9 million (2019: 230.3 million).

The impact of all potentially dilutive share options on earnings per share would be to increase the weighted average number of shares in issue to 227.3 million (2019: 231.8 million).

9. Intangible assets and property, plant and equipment

	Goodwill \$m	Other intangible assets			Property, plant and equipment \$m	Total tangible and intangible assets \$m
		Other acquired intangible assets \$m	Software \$m	Total \$m		
Net book value at 31 July 2019	1,656	356	67	423	1,349	3,428
Adjustment on adoption of IFRS 16	–	–	–	–	(6)	(6)
Net book value at 1 August 2019	1,656	356	67	423	1,343	3,422
Acquisition of businesses	46	66	–	66	2	114
Adjustment to fair value on prior year acquisitions	(14)	16	–	16	–	2
Additions	–	–	19	19	146	165
Disposals	–	–	–	–	(4)	(4)
Amortisation and depreciation	–	(60)	(17)	(77)	(77)	(154)
Impairment	–	–	–	–	(1)	(1)
Reclassified to held for sale	–	–	–	–	(5)	(5)
Exchange rate adjustment	3	2	2	4	13	20
Net book value at 31 January 2020	1,691	380	71	451	1,417	3,559

Notes to the condensed consolidated interim financial statements (unaudited)

Half year to 31 January 2020

10. Leases

Movements in right of use assets for the period ended 31 January 2020 were as follows:

	Land and buildings \$m	Plant and machinery \$m	Total right of use assets \$m
Net book value at 31 July 2019	–	–	–
Adjustment on adoption of IFRS 16	940	280	1,220
Net book value at 1 August 2019	940	280	1,220
Acquisition of businesses	17	–	17
Additions	29	32	61
Disposals	(1)	(1)	(2)
Adjustment as a result of remeasurement of lease liability	21	–	21
Depreciation	(94)	(37)	(131)
Exchange rate adjustments	9	2	11
Net book value at 31 January 2020	921	276	1,197

The maturity of lease liabilities at 31 January 2020 was as follows:

	2020 \$m
Due in less than one year	310
Due in one to two years	326
Due in two to three years	300
Due in three to four years	244
Due in four to five years	175
Due in over five years	276
Total undiscounted lease payments	1,631
Effect of discounting	(186)
Total lease liabilities	1,445
Current lease liabilities	265
Non-current lease liabilities	1,180
Total lease liabilities	1,445

Amounts charged/(credited) to the Group income statement during the period were as follows:

	2020 \$m
Depreciation of right of use assets	131
Short-term lease expense	8
Low-value lease expense	8
Sublease income	(1)
Charged to operating costs	146
Charged to finance costs	27
Total amount charged to the Group income statement	173

Notes to the condensed consolidated interim financial statements (unaudited)

Half year to 31 January 2020

11. Reconciliation of profit to cash generated from operations

Profit for the period is reconciled to cash generated from operations as follows:

Half year to 31 January	2020 \$m	2019 \$m
Profit for the period	467	586
Net finance costs	70	33
Share of loss/(profit) after tax of associates	1	(2)
Gain on disposal of interests in associates	–	(3)
Impairment of interests in associates	22	–
Tax charge	179	134
Profit on disposal and closure of businesses and revaluation of assets held for sale	–	(67)
Amortisation of acquired intangible assets	60	44
Amortisation of non-acquired intangible assets	17	16
Depreciation and impairment of property, plant and equipment	78	73
Depreciation of right of use assets	131	–
Profit on disposal of property, plant and equipment and assets held for sale	–	(7)
Increase in inventories	(106)	(250)
Decrease in trade and other receivables	281	179
Decrease in trade and other payables	(556)	(432)
Decrease in provisions and other liabilities	(29)	(38)
Share-based payments	21	21
Cash generated from operations	636	287

12. Reconciliation of opening to closing net debt including lease liabilities

	Cash and cash equivalents \$m	Bank overdrafts \$m	Total cash, cash equivalents and bank overdrafts \$m	Derivative ¹ financial instruments \$m	Loans ¹ \$m	Obligations ¹ under finance leases \$m	Net debt \$m	Lease ¹ liabilities \$m	Net debt including lease liabilities \$m
At 31 July 2019	1,133	(47)	1,086	22	(2,297)	(6)	(1,195)	–	(1,195)
Adjustment on adoption of IFRS 16	–	–	–	–	–	6	6	(1,481)	(1,475)
At 1 August 2019	1,133	(47)	1,086	22	(2,297)	–	(1,189)	(1,481)	(2,670)
Cash movements									
Proceeds from borrowings and derivatives			–	(4)	(150)	–	(154)	–	(154)
Lease liability capital payments			–	–	–	–	–	144	144
Interest paid on lease liabilities			–	–	–	–	–	27	27
Changes in net debt including lease liabilities due to acquisition of businesses			5	–	–	–	5	(17)	(12)
Other cash flows			(602)	–	–	–	(602)	–	(602)
Non-cash movements									
Lease liability additions			–	–	–	–	–	(61)	(61)
Discount unwinding on lease liabilities			–	–	–	–	–	(27)	(27)
Fair value and other adjustments			–	10	(7)	–	3	(20)	(17)
Exchange movements			(1)	(6)	–	–	(7)	(10)	(17)
At 31 January 2020	775	(287)	488	22	(2,454)	–	(1,944)	(1,445)	(3,389)

1. Liabilities from financing activities.

Notes to the condensed consolidated interim financial statements (unaudited)

Half year to 31 January 2020

13. Acquisitions

The Group acquired the following businesses in the period ended 31 January 2020. All of these businesses are engaged in the distribution of plumbing and heating products. These transactions have been accounted for by the purchase method of accounting.

Name	Date	Country of incorporation	Shares/asset deal	% acquired
Continental Product Engineering Ltd	August 2019	UK	Shares	100
Process Instruments & Controls, LLC	September 2019	USA	Assets	100
S W Anderson	November 2019	USA	Shares	100

The assets and liabilities acquired and the consideration for all acquisitions in the period are as follows:

	2020 Provisional fair values acquired \$m
Intangible assets	
– Customer relationships	53
– Trade names and brands	12
– Other	1
Right of use assets	17
Property, plant and equipment	2
Inventories	19
Receivables	29
Cash, cash equivalents and bank overdrafts	5
Payables	(14)
Current tax	3
Lease liabilities	(17)
Provisions	(2)
Deferred tax	(18)
Total	90
Goodwill arising	46
Consideration	136
Satisfied by:	
Cash	127
Deferred consideration	9
Total consideration	136

The fair value adjustments for the period ended 31 January 2020 are provisional figures, being the best estimates currently available. Amendments may be made to these figures in the 12 months following the date of acquisition when additional information is available for some of the judgemental areas.

The goodwill arising on these acquisitions is attributable to the anticipated profitability of the new markets and product ranges to which the Group has gained access and to additional profitability and operating efficiencies in respect of existing markets.

Notes to the condensed consolidated interim financial statements (unaudited)

Half year to 31 January 2020

13. Acquisitions continued

The acquired businesses contributed \$44 million to revenue and \$5 million to trading profit for the period between the date of acquisition and the balance sheet date. If each acquisition had been completed on the first day of the financial year, continuing revenue would have been \$11,001 million and continuing trading profit would have been \$815 million. It is not practicable to disclose the impact of acquisitions on profit before or after tax, as the Group manages its borrowings as a portfolio and cannot attribute an effective borrowing rate to an individual acquisition.

It is also not practicable to disclose the impact of acquisitions on operating profit as the Group cannot estimate the amount of intangible assets that would have been acquired at a date other than the acquisition date.

The net outflow of cash in the period to 31 January 2020 with respect to the purchase of businesses is as follows:

	2020 \$m
Purchase consideration	127
Deferred and contingent consideration in respect of prior year acquisitions	19
Cash consideration	146
Cash, cash equivalents and bank overdrafts acquired	(5)
Net cash outflow in respect of the purchase of businesses	141

14. Related party transactions

In the period ended 31 January 2020, the Group purchased goods and services on an arm's length basis totalling \$9 million from and owed \$nil in respect of these goods and services to a company that is controlled by another company in respect of which one of the Group's Non Executive Directors is the chief executive officer.

There are no other material related party transactions requiring disclosure under IAS 24 "Related Party Disclosures" other than compensation of key management personnel which will be disclosed in the Group's Annual Report and Accounts for the year ending 31 July 2020.

15. Borrowings, financial instruments and financial risk management

	31 January 2020			31 January 2019		
	Current \$m	Non-current \$m	Total \$m	Current \$m	Non-current \$m	Total \$m
Bank overdrafts	287	–	287	296	–	296
Bank loans	150	–	150	–	–	–
Senior unsecured loan notes	285	2,019	2,304	6	2,280	2,286
Total loans	435	2,019	2,454	6	2,280	2,286
Total borrowings	722	2,019	2,741	302	2,280	2,582

At 31 January 2020, the Group has total available facilities, excluding bank overdrafts, of \$3,916 million (2019: \$3,935 million), of which \$2,431 million is drawn and \$1,485 million is undrawn (2019: \$2,286 million and \$1,649 million respectively). The Group does not have any debt factoring or supply chain financing arrangements.

The senior unsecured loan notes have an estimated fair value of \$2,495 million (2019: \$2,312 million).

Included in bank overdrafts at 31 January 2020 is an amount of \$219 million (2019: \$219 million) which is part of the Group's cash pooling arrangement where there is an equal and opposite balance included within cash and cash equivalents. The amounts are subject to a master netting arrangement.

Notes to the condensed consolidated interim financial statements (unaudited)

Half year to 31 January 2020

15. Borrowings, financial instruments and financial risk management continued

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market (such as over-the-counter derivatives) is determined by using valuation techniques including net present value calculations. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves. The fair value of foreign exchange swaps has been calculated as the present value of the estimated future cash flows based on observable future foreign exchange rates.

The Group's other financial instruments are measured on bases other than fair value. Other receivables include an amount of \$73 million (2019: \$70 million) which has been discounted at a rate of 1.6 per cent (2019: 2.7 per cent) due to the long-term nature of the receivable. Other current assets and liabilities are either of short maturity or bear floating rate interest and so their fair values approximate to book values.

The Group is exposed to risks arising from the international nature of its operations and the financial instruments which fund them, in particular to foreign currency risk, interest rate risk and liquidity risk. Full details of the Group's policies for managing these risks are disclosed in the Group's Annual Report and Accounts for the financial year ended 31 July 2019. Since the date of that report, there have been no significant changes in:

- the nature of the financial risks to which the Group is exposed;
- the nature of the financial instruments which the Group uses; or
- its contractual cash outflows.

16. Subsequent events

Since 31 January 2020, the Group has acquired Columbia Pipe & Supply, a business in the US with annual revenue of \$220 million.

On 5 February 2020, the Group entered into an irrevocable and non-discretionary arrangement with its broker Barclays Capital Securities Limited to purchase shares until 31 March 2020 as part of the recently announced share buy back programme.

On 10 March 2020, the Group entered into a new \$1.1 billion revolving credit facility, provided by a syndicate of eleven banks, with an initial maturity of five years and the option for the Group to apply for two further one year maturity extensions. This facility will replace the existing £800 million revolving credit facility which has now been cancelled.

17. Exchange rates

Exchange rates (equivalent to \$1)	2020	2019
Pounds sterling		
Income statement (average rate for the six months to 31 January)	0.79	0.78
Balance sheet (rate at 31 January)	0.76	0.76
Balance sheet (rate at 31 July)		0.82
Canadian dollars		
Income statement (average rate for the six months to 31 January)	1.32	1.32
Balance sheet (rate at 31 January)	1.32	1.31
Balance sheet (rate at 31 July)		1.32

Independent review report to Ferguson plc

We have been engaged by Ferguson plc (the “Company”) to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2020 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated balance sheet, the condensed consolidated cash flow statement and related notes 1 to 17. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 January 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

Deloitte LLP

Statutory Auditor
London, UK
16 March 2020