FERGUSON

## Results for the year ended 31 July 2019

**1 October 2019**

**STRONG RESULTS WITH GOOD COST CONTROL,
WELL PLACED FOR FURTHER PROGRESS IN 2020**

| $m | 2019 | 2018 | Change | Change (at constant exchange rates) |
|---|---|---|---|---|
| **Statutory financial results** | | | | |
| Revenue | 22,010 | 20,752 | +6.1% | |
| Profit before tax | 1,324 | 1,187 | | |
| Basic earnings per share | 481.3c | 515.7c | | |
| Total ordinary dividend per share | 208.2c | 189.3c | +10.0% | |
| **Alternative performance measures[1]** | | | | |
| Ongoing revenue | 21,771 | 20,334 | +7.1% | +7.9% |
| Ongoing gross margin | 29.4% | 29.3% | | |
| Ongoing trading profit | 1,601 | 1,493 | +7.2% | +7.5% |
| Headline earnings per share | 517.4c | 444.4c | +16.4% | |
| Net debt : adjusted EBITDA | 0.7x | 0.6x | | |

## Highlights

- Ongoing revenue at constant currency 7.9% ahead of last year. US organic revenue growth of 6.2% with continued market share gains.
- Within our US Blended Branches network organic revenue growth was consistent across geographies at about 6%.
- US Waterworks business generated strong organic revenue growth of 6.7%.
- Good control of gross margins and costs ensured strong profit delivery.
- Ongoing trading profit of $1,601 million was 7.5% ahead of last year at constant currency.
- Canada trading profit flat in constant currency despite challenging market conditions.
- UK ongoing trading profit ahead in constant currency, preparing for demerger.
- Completed 15 acquisitions for $657 million.
- Strong cash generation, net debt : adjusted EBITDA ratio of 0.7x.
- Completed $150 million of $500 million share buy back announced in June 2019.

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.

**FERGUSON**

## Results for the year ended 31 July 2019

**John Martin, Chief Executive, commented:**

*"Ferguson performed strongly in 2019 with organic growth in the US of 6.2% and substantial investments in acquisitions to further consolidate our market leading positions. Markets weakened in the second half but our well-executed approach to expanding gross margins and decisive cost control measures ensured strong profit delivery. In our Blended Branches network each region grew organic revenue by about 6% and the Waterworks business grew by 6.7%.*

*"Cash generation in the year was excellent and our balance sheet remains strong. We will continue to invest organically and in selective bolt-on acquisitions that meet our investment criteria. Given our strong financial position we are proposing a final dividend of 145.1 cents which brings the total dividend to 208.2 cents, 10 per cent ahead of last year.*

*"The Board expects to make further good progress in the year ahead. Whilst US market growth is currently broadly flat, consistent with the second half of 2019, we expect to continue to outperform. Our order books support continued modest growth in the months ahead and our business is performing well. We remain focused on maximising our organic revenue growth rate, gross margin expansion, tight cost control and strong cash generation.*

*"We recently proposed the demerger of our UK operations and work on this is progressing well. We have also announced that as part of our orderly succession plans Kevin Murphy will succeed me as Group Chief Executive in November. We are assessing the most appropriate listing structure for the Group going forward and we will continue to consult with shareholders."*

**For further information please contact**


| | | |
|---|---|---|
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There will be an analyst and investor presentation at 0830 (UK time) today at the London Stock Exchange, 10 Paternoster Square, London EC4M 7LS. A live video webcast and slide presentation of this event will be available on www.fergusonplc.com. We recommend you register at 0815 (UK time).

**Financial results**

Ferguson delivered a strong trading result for the year despite weaker market conditions across the USA in the second half. In Canada, residential markets remained tough and in the UK plumbing and heating markets were flat.

**Statutory results**

Revenue of $22,010 million (2018: $20,752 million) was 6.1% ahead of last year. The results included revenue of $239 million for businesses sold during the period. Statutory profit before tax was $1,324 million (2018: $1,187 million) after exceptional charges. Profit attributable to shareholders was lower at $1,108 million (2018: $1,267 million) due principally to gains on disposal in the prior year.

**Alternative performance measures**

Ongoing revenue of $21,771 million (2018: $20,334 million) was 7.9% ahead at constant exchange rates and 4.4% ahead on an organic basis. Inflation in the year was approximately 3%. Ongoing gross margins of 29.4% (2018: 29.3%) were 0.1% ahead of last year as a result of disciplined pricing controls combined with the favourable impact of acquisitions. Operating expenses in the ongoing business were very well controlled.

Ongoing trading profit was $1,601 million (2018: $1,493 million), 7.5% ahead of last year at constant exchange rates. There was one fewer trading day than last year which reduced trading profit by about $12 million. Acquisitions generated revenue of $760 million and trading profit of $45 million, net of $14 million of transaction and integration costs which were charged to trading profit. Foreign exchange movements decreased ongoing revenue by $155 million and trading profit by $4 million.

**Operating and financial review**

Further details of the financial performance of the Group's ongoing businesses are set out below.

*Regional analysis*

| $m | Revenue 2019 | Revenue 2018 | Change (at constant exchange rates) | Trading profit 2019 | Trading profit 2018 | Change (at constant exchange rates) |
|---|---|---|---|---|---|---|
| USA | 18,358 | 16,670 | +10.1% | 1,508 | 1,406 | +7.3% |
| UK | 2,222 | 2,472 | (6.0%) | 69 | 72 | +1.1% |
| Canada | 1,191 | 1,192 | +3.9% | 67 | 70 | (0.1%) |
| Central costs | - | - | | (43) | (55) | |
| Group | 21,771 | 20,334 | +7.9% | 1,601 | 1,493 | +7.5% |

*Quarterly organic revenue growth*

| | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | FY 2019 |
|---|---|---|---|---|---|---|
| USA | +11.4% | +9.6% | +9.7% | +3.3% | +3.0% | +6.2% |
| UK[1] | (0.6%) | +0.8% | (1.0%) | +2.8% | (0.3%) | +0.6% |
| Canada | +6.3% | +3.3% | +0.5% | (2.9%) | (5.2%) | (1.1%) |
| Group | +8.1% | +6.7% | +6.4% | +2.7% | +2.1% | +4.4% |

[1] The UK revenue growth rate is presented on a like-for-like basis to remove the impact of closed branches and the exit of low margin business.

## USA

The US business grew by 6.2% on an organic basis with acquisitions generating 4.2% of additional revenue growth. Price inflation was about 3%.

Blended Branches continued to grow well across all geographic regions including 6.0% in the East, 6.0% in the West and 5.8% in the Central region. Waterworks grew very well and Industrial and HVAC revenue growth was particularly strong. Standalone eBusiness was slightly lower as we continued to consolidate pay-per-click advertising spend around fewer trading websites.

The organic revenue growth by end market was as follows:

| | % of US revenue | Estimated Market Growth H1 2019 | Estimated Market Growth H2 2019 | Estimated Market Growth 2019 | **2019 Organic revenue growth** |
|---|---|---|---|---|---|
| Residential | ~50% | 6% | 1% | 3% | **+5%** |
| Commercial | ~35% | 5% | 2% | 3% | **+7%** |
| Civil / Infrastructure | ~7% | 5% | 2% | 3% | **+6%** |
| Industrial | ~8% | 13% | - | 6% | **+9%** |
| | | 6% | 1% | 3% | **+6.2%** |

In line with recent guidance, market growth moderated in the second half, and we continued to outperform. Our largest quoted suppliers[1] grew at an average rate of 0.8% in the quarter ended 30 June 2019 which compares to Ferguson's Q3 organic revenue growth rate of 3.3%. New residential housing starts and permits from the US Census Bureau declined in the quarter. The Case Shiller house price index and JCHS LIRA remodelling spend indicators both softened, though remained positive. Commercial construction put-in-place data grew modestly whilst the Architectural Billings Index decreased in the quarter. Our orderbooks have grown year-on-year suggesting continuing modest growth over the coming months.

Gross margins were well controlled with good pricing discipline and the favourable mix impact of recent acquisitions.

In light of the tighter market environment in the second half we took decisive action to control cost growth, particularly labour which comprises about 60% of operating costs. Since the start of the calendar year we reduced headcount significantly and this led to strong trading profit delivery in the final months of the financial year, despite modest organic growth rates. Actions also included a voluntary early retirement programme and some selective closures of underperforming branches. These reductions will enable us to continue with ongoing investments in our business and protect the P&L.

Fourteen bolt-on acquisitions were completed in the year with total annualised revenues of $715 million. In addition to those previously announced we acquired Mission Valley Pipe & Supply, a plumbing distributor in San Diego, Action Plumbing Supply, a leading supplier of commercial and industrial products in Florida, and Innovative Soil Solutions, a Texas-based specialist in geosynthetics and erosion control solutions which will support our focus on this exciting area of our Waterworks business. We incurred integration costs of $14 million which have been charged to trading profit, the majority of which related to the Blackman and Wallwork businesses.

Trading profit of $1,508 million (2018: $1,406 million) was 7.3% ahead of last year and the trading margin was 8.2% (2018: 8.4%).

1. Refers to published data for the relevant divisions of Fortune Brands, Masco, Lixil, Whirlpool, A O Smith.

**UK**

Like-for-like revenue growth in the UK was 0.6%. Repairs, maintenance and improvement markets were flat. Gross margins were slightly ahead due to improved product mix. Ongoing trading profit of $69 million was ahead on a constant currency basis and the trading margin was ahead at 3.1% (2018: 2.9%).

We continue to execute our strategy and the focus of the business under new management over the last 18 months has been on industry leading availability, in-night branch fulfilment and outstanding customer service. We also made good progress on rationalising the logistics and supply chain network closing the Leamington distribution centre in the second half with no disruption to customer service.

**Canada**

In Canada, organic revenue was 1.1% lower. Residential markets weakened throughout the year as a result of government measures to restrict mortgage credit, the impact of foreign buyer taxes and rising interest rates. Acquisitions contributed 5.0% of additional growth. Gross margins were ahead of last year and operating expenses were well controlled. Trading profit of $67 million was $3 million ahead of last year when adjusted for the one-off gain of $6 million from a legal settlement in 2017/18. The trading margin was 5.6% (2018: 5.9%). As previously announced, we completed one acquisition in the year with total annualised revenue of $11 million.

**Central costs**

Central costs in the year were $43 million, $12 million lower than last year including the benefit of $7 million relating to one-off items.

**Non-ongoing operations**

The Group disposed of its Dutch plumbing and heating business, the last of its Central European businesses, on 30 January 2019 for consideration of $111 million. We also exited a small non-core business in the UK in March 2019.

**Exceptional items**

Net exceptional charges to operating profit of $94 million (2018: $82 million) comprised $91 million of restructuring charges relating to branch closures and a voluntary retirement programme in the US and restructuring in the UK. There was also a $23 million gain on disposal of businesses and $26 million of other exceptional items.

**Finance costs**

Net finance costs were $74 million (2018: $53 million). The increase was principally due to a higher level of average net debt than last year, as last year we were in receipt of proceeds of disposal from non-core operations for part of the year.

**Tax**

The Group incurred a tax charge of $263 million (2018: $346 million) on profit before tax of $1,324 million (2018: $1,187 million). This includes an ongoing tax charge of $344 million (2018: $363 million) which equates to an ongoing effective tax rate of 22.5% (2018: 25.1%) on the ongoing profit before tax, exceptional items and other items.

**Change of corporate headquarters**

In May, following shareholder approval, the Company changed to a new corporate structure moving the Group's headquarters and the tax residence of its holding company from Switzerland to the UK. The Company expects to maintain its previously announced guidance for an effective tax rate of 25-26% for the year ended 31 July 2020.

**Earnings per share**

Total basic earnings per share were 481.3 cents (2018: 515.7 cents). Headline earnings per share increased by 16.4% to 517.4 cents (2018: 444.4 cents) mainly due to the increase in trading profit during the year and a reduction in the effective tax rate.

**Cash flow**

The Group continued to generate strong cash flows with cash generated from operations of $1,609 million (2018: $1,323 million). Return on capital employed increased again to 26.2%. Net interest and tax amounted to $319 million (2018: $287 million) and acquisitions amounted to $657 million (2018: $416 million). In line with our organic growth plans, capital investment increased to $418 million (2018: $299 million) principally as a result of investment in new freehold distribution centres and administrative sites. Disposal proceeds principally relating to our Dutch plumbing and heating business and other surplus assets were $303 million (2018: $1,440 million). Ordinary dividends paid amounted to $445 million (2018: $385 million).

**Net debt and pensions**

The Group's net debt at 31 July 2019 was $1,195 million (31 July 2018: $1,080 million) and the ratio of net debt to the last twelve months adjusted EBITDA was 0.7x (31 July 2018: 0.6x). The Group has a strong liquidity position and aims to operate with a net debt to adjusted EBITDA ratio of between 1x and 2x.

At 31 July 2019 the Group's net pension position was an asset of $153 million (2018: net asset of $174 million).

**IFRS 16 lease accounting**

On 1 August 2019, the Group adopted IFRS 16 "Leases". The Group is using the modified retrospective approach to transition. The impact on the opening balance sheet at the date of initial application will be the creation of a right of use asset of $1.2 billion and a lease liability of $1.5 billion. The net impact on earnings in the first year of adoption (year ending 31 July 2020) is not expected to be material, however, adjusted EBITDA will improve by approximately $300 million due to the reduction in rental charges which will be broadly offset by about $250 million increase in depreciation and higher interest charges of about $50 million.

There is no economic impact on the cash flows of the Group as a result of the adoption of IFRS 16 although the presentation in the cash flow statement will change to increase cash generated from operations and increase interest paid and cash used by financing activities.

As at 31 July 2019, the Group had minimum operating lease commitments of $1,126 million (2018: $1,081 million).

**Shareholder returns**

In April the Group paid an interim dividend of 63.1 cents per share (2018: 57.4 cents per share) amounting to $146 million. If approved at the AGM, the proposed final dividend of 145.1 cents per share (2018: 131.9 cents per share), equivalent to $332 million, will be paid on 28 November 2019 to shareholders on the register at 25 October 2019. This brings the total dividend for 2019 to 208.2 cents per share, an increase of 10%. In future, we aim to grow ordinary dividends in line with the long-term underlying growth in earnings.

Our investment priorities remain focused on investing in organic growth, maintaining and growing the ordinary dividend in line with earnings through the cycle and investing in bolt-on acquisitions that meet our investment criteria. Any surplus cash after meeting these investment needs will be returned to shareholders promptly. In June, we announced a $500 million share buy back programme and at 31 July 2019 the Company had bought back 2.1 million shares worth $150 million at an average price of £57.12. We expect to complete the share buy back over the next 12 months.

## Board changes

In September, we announced that John Martin will step down as Chief Executive on 19 November 2019. John joined the Board as Chief Financial Officer in 2010 before being appointed Group Chief Executive in 2016. During his tenure the Group has been significantly simplified, exiting less attractive markets and focusing resources on those markets where the Company is best equipped to win. John's contribution to Ferguson has been outstanding for nearly a decade and he leaves the business in great shape. The Board wishes him well for the future.

The Board is delighted that Kevin Murphy will succeed John as Chief Executive in November. 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.

In May we announced the appointment of Geoff Drabble as a Non Executive Director. Geoff will succeed Gareth Davis as Chairman after the 2019 Annual General Meeting, subject to shareholder approval. Gareth has served as a Non Executive Director of Ferguson for 16 years including nearly nine years as the Company's 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. We are delighted to welcome Geoff to the Board of Ferguson. 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.

We are announcing today that Darren Shapland will be stepping down as a Non Executive Director at the AGM in November. The Board thanks him for his significant contribution to the Company over the last 6 years. Darren's responsibilities as Chairman of the Audit Committee will be taken on by Alan Murray the Senior Independent Director. Alan, a US resident, is a Chartered Management Accountant with considerable financial, operational and international experience within global businesses including 19 years at Hanson plc, with 5 years as CEO.

During the year two other Non Executive Directors joined the Board. Cathy Halligan joined Ferguson in January 2019. She is a US citizen and currently serves on the Board of two NASDAQ-listed companies: Ulta Beauty, the omni-channel retailer; and FLIR Systems, a global thermal imaging, infrared technology company. Cathy previously worked for Walmart for five years where she held Executive roles across marketing and e-commerce, including Chief Marketing Officer for Walmart.com. Cathy has extensive digital transformation, marketing and Board experience. In February Tom Schmitt, a US citizen, was appointed to the Board and is currently Chairman and Chief Executive of Forward Air Corporation, the NASDAQ-listed premium ground transportation company. From 2013 to 2016 Tom served as a Non Executive Director of Zooplus AG, the e-commerce based provider of pet foods and supplies listed on the Frankfurt Stock Exchange. Tom has significant operational experience of running large international logistics and supply chain businesses. I am confident both will make significant contributions to the Board.

## Outlook

The Board expects to make further good progress in the year ahead. Whilst US market growth is currently broadly flat, consistent with the second half of 2019, we expect to continue to outperform. Our order books support continued modest growth in the months ahead and our business is performing well. We remain focused on maximising our organic revenue growth rate, gross margin expansion, tight cost control and strong cash generation.

**Notes to statement**

## 1. About Ferguson

Ferguson plc is the world's largest specialist trade distributor of plumbing and heating products to professional contractors principally operating in North America. 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. Provisional financial calendar

| | **2019** |
|---|---|
| Annual General Meeting | 21 November |
| Q1 Results for period ending 31 October 2019 | 3 December |

## 3. Timetable for the interim dividend

The timetable for payment of the proposed final dividend of 145.1 cents per share is as follows:

| | |
|---|---|
| Ex dividend date: | 24 October 2019 |
| Record date: | 25 October 2019 |
| Payment date: | 28 November 2019 |

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 2019 final 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 final dividend is 07 November 2019 and any requests should be made in good time ahead of that date.

## 4. 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, divestments, risks associated with changes in economic conditions, the strength of the plumbing and heating and building materials 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.

# Group income statement

Year ended 31 July 2019

| | Notes | 2019 Before exceptional items $m | 2019 Exceptional items (note 5) $m | 2019 Total $m | 2018 Before exceptional items $m | 2018 Exceptional items (note 5) $m | 2018 Total $m |
|---|---|---|---|---|---|---|---|
| **Revenue** | 3 | **22,010** | **–** | **22,010** | 20,752 | – | 20,752 |
| Cost of sales | | **(15,550)** | **(2)** | **(15,552)** | (14,689) | (19) | (14,708) |
| **Gross profit** | | **6,460** | **(2)** | **6,458** | 6,063 | (19) | 6,044 |
| Operating costs: | | | | | | | |
| amortisation of acquired intangible assets | | **(110)** | **–** | **(110)** | (65) | – | (65) |
| other | | **(4,854)** | **(92)** | **(4,946)** | (4,556) | (63) | (4,619) |
| Operating costs | | **(4,964)** | **(92)** | **(5,056)** | (4,621) | (63) | (4,684) |
| **Operating profit** | 3, 4 | **1,496** | **(94)** | **1,402** | 1,442 | (82) | 1,360 |
| Net finance costs | | **(74)** | **–** | **(74)** | (53) | – | (53) |
| Share of profit after tax of associates | | **2** | **–** | **2** | 2 | – | 2 |
| Gain on disposal of interests in associates | | **–** | **3** | **3** | – | – | – |
| Impairment of interests in associates | | **(9)** | **–** | **(9)** | (122) | – | (122) |
| **Profit before tax** | | **1,415** | **(91)** | **1,324** | 1,269 | (82) | 1,187 |
| Tax | 6 | **(282)** | **19** | **(263)** | (361) | 15 | (346) |
| **Profit from continuing operations** | | **1,133** | **(72)** | **1,061** | 908 | (67) | 841 |
| **Profit from discontinued operations** | 7 | **6** | **41** | **47** | 22 | 404 | 426 |
| **Profit for the year attributable to shareholders of the Company** | | **1,139** | **(31)** | **1,108** | 930 | 337 | 1,267 |

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **Earnings per share** | 9 | | |
| *Continuing operations and discontinued operations* | | | |
| Basic earnings per share | | **481.3c** | 515.7c |
| Diluted earnings per share | | **477.8c** | 511.9c |
| *Continuing operations only* | | | |
| Basic earnings per share | | **460.9c** | 342.3c |
| Diluted earnings per share | | **457.5c** | 339.8c |

| **Alternative performance measures** | Notes | 2019 | 2018 |
|---|---|---|---|
| Trading profit from ongoing operations | 2 | **1,601** | 1,493 |
| Trading profit from non-ongoing operations | 2 | **5** | 14 |
| Trading profit from continuing operations | 2, 3 | **1,606** | 1,507 |
| Adjusted EBITDA from continuing operations | 2 | **1,788** | 1,687 |
| Headline earnings per share | 2, 9 | **517.4c** | 444.4c |

# Group statement of comprehensive income

Year ended 31 July 2019

| | Notes | 2019 $m | 2018 $m |
|---|---|---|---|
| **Profit for the year** | | **1,108** | 1,267 |
| **Other comprehensive income:** | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Exchange (loss)/gain on translation of overseas operations[1] | | **(86)** | 7 |
| Exchange gain/(loss) on translation of borrowings and derivatives designated as hedges of overseas operations[1] | | **36** | (11) |
| Cumulative currency translation differences on disposals[1] | 14 | **1** | 194 |
| 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)/gain on retirement benefit plans[2] | | **(36)** | 104 |
| Tax credit/(charge) on items that will not be reclassified to profit or loss[2] | 6 | **6** | (17) |
| Other comprehensive (expense)/income for the year | | **(72)** | 277 |
| Total comprehensive income for the year | | **1,036** | 1,544 |
| Total comprehensive income attributable to: | | | |
| Continuing operations | | **993** | 926 |
| Discontinued operations | | **43** | 618 |
| **Total comprehensive income for the year attributable to shareholders of the Company** | | **1,036** | 1,544 |

1. Impacting the translation reserve.
2. Impacting retained earnings.

# Group statement of changes in equity

Year ended 31 July 2019

| | | | | Reserves | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Notes | Share capital $m | Share premium $m | Translation reserve $m | Treasury shares $m | Own shares $m | Retained earnings $m | Non-controlling interest $m | Total equity $m |
| At 31 July 2017 | | 45 | 67 | (746) | (743) | (76) | 5,996 | (3) | 4,540 |
| Profit for the year | | – | – | – | – | – | 1,267 | – | 1,267 |
| Other comprehensive income | | – | – | 190 | – | – | 87 | – | 277 |
| Total comprehensive income | | – | – | 190 | – | – | 1,354 | – | 1,544 |
| Purchase of own shares by Employee Benefit Trusts | | – | – | – | – | (41) | – | – | (41) |
| Issue of own shares by Employee Benefit Trusts | | – | – | – | – | 27 | (27) | – | – |
| Credit to equity for share-based payments | | – | – | – | – | – | 35 | – | 35 |
| Tax relating to share-based payments | 6 | – | – | – | – | – | 8 | – | 8 |
| Adjustment arising from change in non-controlling interest | | – | – | – | – | – | (16) | 2 | (14) |
| Purchase of Treasury shares | | – | – | – | (675) | – | – | – | (675) |
| Disposal of Treasury shares | | – | – | – | 38 | – | (14) | – | 24 |
| Dividends paid | 8 | – | – | – | – | – | (1,364) | – | (1,364) |
| At 31 July 2018 | | **45** | **67** | **(556)** | **(1,380)** | **(90)** | **5,972** | **(1)** | **4,057** |
| Profit for the year | | **–** | **–** | **–** | **–** | **–** | **1,108** | **–** | **1,108** |
| Other comprehensive expense | | **–** | **–** | **(42)** | **–** | **–** | **(30)** | **–** | **(72)** |
| Total comprehensive income | | **–** | **–** | **(42)** | **–** | **–** | **1,078** | **–** | **1,036** |
| Cancellation of Treasury shares | | **(4)** | **–** | **–** | **1,369** | **–** | **(1,365)** | **–** | **–** |
| Group reconstruction | | **(11)** | **16,083** | **–** | **–** | **–** | **(16,072)** | **–** | **–** |
| Capital reduction | | **–** | **(16,150)** | **–** | **–** | **–** | **16,150** | **–** | **–** |
| Issue of share capital | | **–** | **9** | **–** | **–** | **–** | **–** | **–** | **9** |
| Purchase of own shares by Employee Benefit Trusts | | **–** | **–** | **–** | **–** | **(38)** | **–** | **–** | **(38)** |
| Issue of own shares by Employee Benefit Trusts | | **–** | **–** | **–** | **–** | **26** | **(26)** | **–** | **–** |
| Credit to equity for share-based payments | | **–** | **–** | **–** | **–** | **–** | **34** | **–** | **34** |
| Tax relating to share-based payments | 6 | **–** | **–** | **–** | **–** | **–** | **6** | **–** | **6** |
| Adjustment arising from change in non-controlling interest | | **–** | **–** | **–** | **–** | **–** | **–** | **1** | **1** |
| Purchase of Treasury shares | | **–** | **–** | **–** | **(309)** | **–** | **–** | **–** | **(309)** |
| Disposal of Treasury shares | | **–** | **–** | **–** | **15** | **–** | **(12)** | **–** | **3** |
| Dividends paid | 8 | **–** | **–** | **–** | **–** | **–** | **(449)** | **–** | **(449)** |
| At 31 July 2019 | | **30** | **9** | **(598)** | **(305)** | **(102)** | **5,316** | **–** | **4,350** |

On 10 May 2019 a new Jersey incorporated, UK headquartered, company became the holding company of the Ferguson Group. Shareholders received one 10 pence ordinary share in this new company for each $11\frac{227}{563}$ pence ordinary share in the old Ferguson holding company. The introduction of a new parent company constitutes a group reconstruction with the new holding company recording the cost of its investment in the old Ferguson holding company at the fair value on 10 May 2019 resulting in an increase in share premium to $16,150 million. On 10 May 2019 the new holding company undertook a reduction of capital under which the entire amount of the share premium account as at 10 May 2019 was cancelled and transferred to retained earnings.

# Group balance sheet

Year ended 31 July 2019

| | Notes | 2019 $m | 2018 $m |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets: goodwill | 10 | **1,656** | 1,408 |
| Intangible assets: other | 10 | **423** | 308 |
| Property, plant and equipment | 10 | **1,349** | 1,086 |
| Interests in associates | | **29** | 64 |
| Financial assets | | **42** | 11 |
| Retirement benefit assets | | **178** | 193 |
| Deferred tax assets | | **164** | 130 |
| Trade and other receivables | | **340** | 328 |
| Derivative financial assets | | **10** | 17 |
| | | **4,191** | 3,545 |
| **Current assets** | | | |
| Inventories | | **2,821** | 2,516 |
| Trade and other receivables | | **3,213** | 3,094 |
| Current tax receivable | | **6** | 10 |
| Financial assets | | **9** | – |
| Derivative financial assets | | **12** | – |
| Cash and cash equivalents | | **1,133** | 833 |
| | | **7,194** | 6,453 |
| Assets held for sale | | **1** | 151 |
| **Total assets** | | **11,386** | 10,149 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | **3,797** | 3,341 |
| Current tax payable | | **251** | 188 |
| Derivative financial liabilities | | **–** | 2 |
| Borrowings | | **52** | 383 |
| Obligations under finance leases | | **2** | 3 |
| Provisions | 11 | **79** | 95 |
| Retirement benefit obligations | | **–** | 4 |
| | | **4,181** | 4,016 |
| **Non-current liabilities** | | | |
| Trade and other payables | | **292** | 298 |
| Derivative financial liabilities | | **–** | 17 |
| Borrowings | | **2,292** | 1,522 |
| Obligations under finance leases | | **4** | 3 |
| Deferred tax liabilities | | **56** | 42 |
| Provisions | 11 | **186** | 179 |
| Retirement benefit obligations | | **25** | 15 |
| | | **2,855** | 2,076 |
| **Total liabilities** | | **7,036** | 6,092 |
| **Net assets** | | **4,350** | 4,057 |
| **Equity** | | | |
| Share capital | | **30** | 45 |
| Share premium | | **9** | 67 |
| Reserves | | **4,311** | 3,946 |
| **Equity attributable to shareholders of the Company** | | **4,350** | 4,058 |
| Non-controlling interest | | **–** | (1) |
| **Total equity** | | **4,350** | 4,057 |

# Group cash flow statement

Year ended 31 July 2019

| | Notes | 2019 $m | 2018 $m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 12 | **1,609** | 1,323 |
| Interest received | | **13** | 9 |
| Interest paid | | **(90)** | (62) |
| Tax paid | | **(242)** | (234) |
| Net cash generated from operating activities | | **1,290** | 1,036 |
| **Cash flows from investing activities** | | | |
| Acquisition of businesses (net of cash acquired) | 13 | **(657)** | (416) |
| Disposals of businesses (net of cash disposed of) | 14 | **201** | 1,320 |
| Purchases of property, plant and equipment | | **(382)** | (265) |
| Proceeds from sale of property, plant and equipment and assets held for sale | | **84** | 120 |
| Purchases of intangible assets | | **(36)** | (34) |
| Acquisition of associates and other investments | | **(11)** | (35) |
| Disposal of interests in associates | | **18** | – |
| Dividends received from associates | | **–** | 10 |
| Net cash (used in)/generated from investing activities | | **(783)** | 700 |
| **Cash flows from financing activities** | | | |
| Proceeds from the issue of shares | | **9** | – |
| Purchase of own shares by Employee Benefit Trusts | | **(38)** | (41) |
| Purchase of Treasury shares | | **(150)** | (675) |
| Proceeds from the sale of Treasury shares | | **3** | 24 |
| Proceeds from loans and derivatives | 15 | **757** | 459 |
| Repayments of loans | 15 | **(2)** | (261) |
| Finance lease capital payments | 15 | **(3)** | (4) |
| Dividends paid to shareholders | | **(445)** | (1,359) |
| Net cash generated from/(used in) financing activities | | **131** | (1,857) |
| Net cash generated/(used) | | **638** | (121) |
| Effects of exchange rate changes | | **(10)** | (7) |
| Net increase/(decrease) in cash, cash equivalents and bank overdrafts | | **628** | (128) |
| Cash, cash equivalents and bank overdrafts at the beginning of the year | 15 | **458** | 586 |
| Cash, cash equivalents and bank overdrafts at the end of the year | 15 | **1,086** | 458 |

# Notes to the full year results announcement
Year ended 31 July 2019

## 1 – Basis of preparation

The full year results announcement for the year ended 31 July 2019, which is an abridged statement of the full Annual Report and Accounts, has been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The full year results announcement has been prepared on a going concern basis. The Directors are confident that on the basis of current financial projections and facilities available, and after considering sensitivities, the Group has sufficient resources for its operational needs and will remain in compliance with the financial covenants in its bank facilities for the foreseeable future.

On 10 May 2019, pursuant to a Scheme of Arrangement under Article 125 of the Companies (Jersey) Law 1991, a new parent company was introduced which is now called Ferguson plc (the "Company"). The previous parent company has been renamed as Ferguson Holdings Limited ("Old Ferguson").

Immediately after the Scheme of Arrangement became effective the Company had the same management and corporate governance arrangements as Old Ferguson had immediately before. The consolidated assets and liabilities of the Company immediately after the effective date of the Scheme of Arrangement were the same as the consolidated assets and liabilities of Old Ferguson immediately before.

The introduction of a new parent company constitutes a group reconstruction and has been accounted for as a reverse acquisition in accordance with IFRS 3 "Business Combinations" and using merger accounting principles. Therefore, although the group reconstruction did not become effective until 10 May 2019, the consolidated financial statements of the Group are presented as if the Company and Old Ferguson had always been part of the same Group.

Accordingly, the results of the Group for the entire year ended 31 July 2019 are shown in the Group income statement, and the comparative figures for the year ended 31 July 2018 are also prepared on this basis. Earnings per share are unaffected by the group reconstruction.

Ferguson plc is a public company limited by shares incorporated in Jersey under the Companies (Jersey) Law 1991 and is headquartered in the UK. It operates as the ultimate parent company of the Ferguson Group. Its registered office is 26 New Street, St Helier, Jersey, JE2 3RA, Channel Islands.

The financial information for the year ended 31 July 2019 does not constitute the statutory financial statements of the Group. The statutory financial statements of Old Ferguson for the year ended 31 July 2018 have been filed with the Jersey Registrar of Companies. The auditors have reported on those accounts and on the statutory financial statements of the Company for the year ended 31 July 2019 which will be filed with the Jersey Registrar of Companies following the Annual General Meeting. Both the audit reports were unqualified and did not contain any statements under Article 111(2) or Article 111(5) of the Companies (Jersey) Law 1991 or under section 498 of the Companies Act 2006.

**Accounting developments and changes**

On 1 August 2018 the Group adopted IFRS 9 "Financial Instruments". The standard makes changes to the classification and measurement of financial assets and liabilities, revises the requirements of hedge accounting and introduces a new impairment model for financial assets. The adoption of IFRS 9 has not had a material impact on the Group's consolidated financial statements, comparatives have not been restated and there is no adjustment required to opening retained earnings.

On 1 August 2018 the Group adopted IFRS 15 "Revenue from Contracts with Customers" applying the modified retrospective approach which does not require the restatement of comparatives. The standard introduces revised principles for the recognition of revenue with a new five-step model that focuses on the transfer of control instead of a risks and rewards approach. The adoption of IFRS 15 has not had a material impact on the Group's consolidated financial statements and there is no adjustment required to opening retained earnings. The presentation of the provision for sales returns has changed from a net basis to a gross basis on the balance sheet, with a liability for expected refunds to customers included within trade and other payables and an associated asset for the value of returned goods included within inventory.

The following other standards and amendments to existing standards became effective for the year ending 31 July 2019 and have not had a material impact on the Group's consolidated financial statements:

— IFRIC 22 "Foreign Currency Transactions and Advance Consideration";
— Annual Improvements to IFRSs 2014-2016 Cycle;
— Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions;
— Amendments to IAS 40 – Transfers of Investment Property; and
— Amendments to IFRS 4 – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts".

IFRS 16 "Leases" is effective for the Group for the year ending 31 July 2020 and represents a change to the treatment of leases in the financial statements. The Group will be required to apply a single model to recognise a lease liability and a right of use asset for all leases, including those classified as operating leases under current accounting standards, unless the underlying asset has a low value or the lease term is 12 months or less.

The Group is using the modified retrospective approach to transition. The impact on the opening balance sheet at the date of initial application of 1 August 2019 will be the creation of a right of use asset of $1.2 billion and a lease liability of $1.5 billion. The lease liability on transition is greater than the operating lease commitments ($1,126 million as at 31 July 2019) due to the inclusion of options to extend which the Group is reasonably certain to exercise, partially offset by the effect of discounting. The net impact on profit for the year in the first year of adoption (year ending 31 July 2020) is not expected to be material to the Group, however, adjusted EBITDA will improve due to the reduction in rental charges which will be broadly offset in the income statement by an increase in depreciation and interest charges.

## 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 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 have been disposed of, closed or classified as held for sale. In 2019, the Group's Dutch business, Wasco, and a small non-core UK business have been sold and classified as non-ongoing and all comparatives have been restated for consistency and comparability.

Ongoing operations are continuing operations excluding non-ongoing operations.

**Constant exchange rates**

The Group measures some financial metrics on both a reported basis and at constant exchange rates. The constant exchange rate basis re-translates the prior year at the current year exchange rates to eliminate the effect of exchange rate fluctuations when comparing information year-on-year.

**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:

| | Ongoing | | Non-ongoing | Continuing |
|---|---|---|---|---|
| Revenue | $m | % growth | $m | $m |
| Reported 2018 restated | **20,334** | | **418** | **20,752** |
| Impact of exchange rate movements | **(155)** | | **(19)** | **(174)** |
| Reported 2018 at 2019 exchange rates | **20,179** | | **399** | **20,578** |
| Organic growth | **884** | **4.4** | **27** | **911** |
| Trading days | **(52)** | **(0.3)** | **–** | **(52)** |
| Acquisitions | **760** | **3.8** | **–** | **760** |
| Disposals | **–** | **–** | **(187)** | **(187)** |
| Growth at constant exchange rates | **1,592** | **7.9** | **(160)** | **1,432** |
| Reported 2019 | **21,771** | | **239** | **22,010** |

**Like-for-like revenue growth**

To aid understanding of the UK business management reports like-for-like revenue growth, which is organic revenue growth excluding the effect of branch openings and closures and the exit of low margin business.

**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 underlying 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 underlying 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 year are disclosed in note 5.

## 2 – Alternative performance measures continued

### 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:

| | 2019 Gross profit $m | 2019 Revenue $m | 2019 Ongoing gross margin % | Restated 2018 Gross profit $m | Restated 2018 Revenue $m | Restated 2018 Ongoing gross margin % |
|---|---|---|---|---|---|---|
| Continuing | **6,458** | **22,010** | | 6,044 | 20,752 | |
| Non-ongoing | **(64)** | **(239)** | | (115) | (418) | |
| Exceptional items | **2** | **–** | | 19 | – | |
| Ongoing | **6,396** | **21,771** | **29.4** | 5,948 | 20,334 | 29.3 |

### Trading profit and ongoing trading margin

Trading profit is defined as operating profit before exceptional items and the amortisation and impairment 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 underlying trading business.

The ongoing trading margin is the ratio of ongoing trading profit to ongoing revenue and is used to assess business unit profitability and is a key performance indicator for the Group.

A reconciliation of trading profit to statutory operating profit and the calculation of ongoing trading margin are provided below:

| | 2019 Ongoing $m | 2019 Ongoing growth % | 2019 Non-ongoing $m | 2019 Continuing $m | Restated 2018 Ongoing $m | Restated 2018 Non-ongoing $m | Restated 2018 Continuing $m |
|---|---|---|---|---|---|---|---|
| Trading profit 2018 | **1,493** | | **14** | **1,507** | | | |
| Impact of exchange rate movements | **(4)** | | **(2)** | **(6)** | | | |
| Trading profit 2018 at 2019 exchange rates | **1,489** | | **12** | **1,501** | | | |
| Growth at constant exchange rates | **112** | **7.5** | **(7)** | **105** | | | |
| Trading profit | **1,601** | | **5** | **1,606** | 1,493 | 14 | 1,507 |
| Amortisation of acquired intangible assets | **(109)** | | **(1)** | **(110)** | (60) | (5) | (65) |
| Exceptional items | **(117)** | | **23** | **(94)** | (82) | – | (82) |
| Operating profit | **1,375** | | **27** | **1,402** | 1,351 | 9 | 1,360 |

Revenue, trading profit and trading margin by reportable segment are shown below. For information on our reportable segments see note 3.

| | Revenue 2019 $m | Revenue Restated 2018 $m | Trading profit 2019 $m | Trading profit Restated 2018 $m | Trading margin 2019 % | Trading margin Restated 2018 % |
|---|---|---|---|---|---|---|
| USA | **18,358** | 16,670 | **1,508** | 1,406 | **8.2** | 8.4 |
| UK | **2,222** | 2,472 | **69** | 72 | **3.1** | 2.9 |
| Canada and Central Europe | **1,191** | 1,192 | **67** | 70 | **5.6** | 5.9 |
| Central and other costs | **–** | – | **(43)** | (55) | **–** | – |
| Total ongoing operations | **21,771** | 20,334 | **1,601** | 1,493 | **7.4** | 7.3 |
| UK | **59** | 96 | **(4)** | 1 | | |
| Canada and Central Europe | **180** | 322 | **9** | 13 | | |
| Total non-ongoing operations | **239** | 418 | **5** | 14 | | |
| Continuing operations | **22,010** | 20,752 | **1,606** | 1,507 | | |

## 2 – Alternative performance measures continued

### Adjusted EBITDA

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

| | | | **2019** | | | 2018 |
|---|---|---|---|---|---|---|
| | **Continuing $m** | **Discontinued $m** | **Group $m** | Continuing $m | Discontinued $m | Group $m |
| Operating profit | **1,402** | **47** | **1,449** | 1,360 | 461 | 1,821 |
| Exceptional items | **94** | **(42)** | **52** | 82 | (402) | (320) |
| Amortisation and impairment of goodwill and acquired intangible assets | **110** | **–** | **110** | 65 | – | 65 |
| Trading profit | **1,606** | **5** | **1,611** | 1,507 | 59 | 1,566 |
| Depreciation and impairment of property, plant and equipment | **147** | **–** | **147** | 152 | – | 152 |
| Amortisation and impairment of non-acquired intangible assets | **31** | **–** | **31** | 28 | – | 28 |
| Impairment of assets held for sale | **4** | **–** | **4** | – | – | – |
| Adjusted EBITDA | **1,788** | **5** | **1,793** | 1,687 | 59 | 1,746 |

### 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. See reconciliation in note 6.

### 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 and impairment of acquired intangible assets and impairment 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 year, 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 the Executive Directors and other senior executives. See reconciliation in note 9.

### Net debt

Net debt comprises cash and cash equivalents and liabilities from financing activities, including borrowings, derivative financial instruments and obligations under finance leases. Net debt is a good indicator of the strength of the Group's balance sheet position and is widely used by credit rating agencies. See note 15 for a reconciliation.

## 3 – Segmental analysis

The Group's operating segments are established on the basis of the operating businesses overseen by distinct divisional management teams responsible for their performance. These operating businesses are managed on a geographical basis and are regularly reviewed by the chief operating decision maker in deciding how to allocate resources and assess the performance of the businesses. All operating segments derive their revenue from a single business activity, the distribution of plumbing and heating products. Revenue is attributed to a country based on the location of the Group company reporting the revenue.

The Group has combined the Canada and Central Europe operating segments into one reportable segment as individually they do not meet the quantitative thresholds set out in IFRS 8 "Operating Segments" to be separately disclosed.

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 trading profit for continuing operations between the years ended 31 July 2018 and 31 July 2019 include changes in exchange rates, disposals, acquisitions, trading days and organic change.

Where businesses are disposed in the year, the difference between the revenue and trading profit in the current year up to the date of disposal and the revenue and trading profit in the equivalent portion of the prior year is included in organic change.

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

| | 2018 $m | Exchange $m | Disposals $m | Acquisitions $m | Trading days $m | Organic change $m | **2019 $m** |
|---|---|---|---|---|---|---|---|
| USA | 16,670 | – | – | 703 | (56) | 1,041 | **18,358** |
| UK | 2,568 | (113) | (37) | – | 4 | (141) | **2,281** |
| Canada and Central Europe | 1,514 | (61) | (150) | 57 | – | 11 | **1,371** |
| Continuing operations | 20,752 | (174) | (187) | 760 | (52) | 911 | **22,010** |

An analysis of the change in trading profit/(loss) (note 2) by reportable segment for continuing operations is as follows:

| | 2018 $m | Exchange $m | Disposals $m | Acquisitions $m | Trading days $m | Organic change $m | **2019 $m** |
|---|---|---|---|---|---|---|---|
| USA | 1,406 | – | – | 40 | (12) | 74 | **1,508** |
| UK[1] | 73 | (5) | – | – | – | (3) | **65** |
| Canada and Central Europe[2] | 83 | (3) | (6) | 5 | – | (3) | **76** |
| Central and other costs | (55) | 2 | – | – | – | 10 | **(43)** |
| Continuing operations | 1,507 | (6) | (6) | 45 | (12) | 78 | **1,606** |

1. Includes $1 million adverse variance in exchange and $4 million adverse variance in organic change relating to non-ongoing operations.
2. Includes $1 million adverse variance in exchange and $3 million favourable variance in organic change relating to non-ongoing operations.

The reconciliation between trading profit/(loss) (note 2) and operating profit/(loss) by reportable segment for continuing operations is as follows:

| | **2019** | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | **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 | **1,508** | **(63)** | **(102)** | **1,343** | 1,406 | (5) | (58) | 1,343 |
| UK | **65** | **(54)** | **–** | **11** | 73 | (70) | – | 3 |
| Canada and Central Europe | **76** | **34** | **(8)** | **102** | 83 | – | (7) | 76 |
| Central and other costs | **(43)** | **(11)** | **–** | **(54)** | (55) | (7) | – | (62) |
| Group | **1,606** | **(94)** | **(110)** | **1,402** | 1,507 | (82) | (65) | 1,360 |
| Net finance costs | | | | **(74)** | | | | (53) |
| Share of profit after tax of associates | | | | **2** | | | | 2 |
| Gain on disposal of interests in associates | | | | **3** | | | | – |
| Impairment of interests in associates | | | | **(9)** | | | | (122) |
| Profit before tax | | | | **1,324** | | | | 1,187 |

## 3 – Segmental analysis continued

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

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Segment assets $m** | **Segment liabilities $m** | **Segment net assets/ (liabilities) $m** | Segment assets $m | Segment liabilities $m | Segment net assets/ (liabilities) $m |
| USA[1] | **8,252** | **(3,243)** | **5,009** | 6,964 | (2,772) | 4,192 |
| UK | **1,144** | **(553)** | **591** | 1,301 | (656) | 645 |
| Canada and Central Europe | **564** | **(267)** | **297** | 690 | (297) | 393 |
| Central and other costs[1] | **97** | **(282)** | **(185)** | 88 | (141) | (53) |
| Discontinued | **4** | **(34)** | **(30)** | 116 | (66) | 50 |
| Total | **10,061** | **(4,379)** | **5,682** | 9,159 | (3,932) | 5,227 |
| Tax assets/(liabilities) | **170** | **(307)** | **(137)** | 140 | (230) | (90) |
| Net cash/(debt) | **1,155** | **(2,350)** | **(1,195)** | 850 | (1,930) | (1,080) |
| Group assets/(liabilities) | **11,386** | **(7,036)** | **4,350** | 10,149 | (6,092) | 4,057 |

1. Segmental assets include $8 million (2018: $nil ) in the USA and $21 million (2018: $64 million) in Central and other costs relating to interests in associates.

Geographical information of non-current assets is set out in the table below. Non-current assets includes goodwill, other intangible assets, property, plant and equipment and interests in associates.

| | **2019 $m** | 2018 $m |
|---|---|---|
| USA | **3,036** | 2,343 |
| UK | **225** | 258 |
| Canada and Central Europe | **196** | 265 |
| Group | **3,457** | 2,866 |

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Additions to goodwill $m** | **Additions to other acquired intangible assets and interests in associates $m** | **Additions to non-acquired intangible assets $m** | **Additions to property, plant and equipment $m** | Additions to goodwill $m | Additions to other acquired intangible assets and interests in associates $m | Additions to non-acquired intangible assets $m | Additions to property, plant and equipment $m |
| USA | **258** | **224** | **26** | **327** | 208 | 120 | 8 | 182 |
| UK | **–** | **–** | **8** | **33** | – | – | 16 | 32 |
| Canada and Central Europe | **1** | **–** | **2** | **11** | 33 | 10 | 5 | 13 |
| Central and other costs | **–** | **–** | **–** | **3** | – | 35 | 1 | 1 |
| Group | **259** | **224** | **36** | **374** | 241 | 165 | 30 | 228 |

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Impairment of goodwill, other acquired intangible assets and interests in associates $m** | **Amortisation of other acquired intangible assets $m** | **Amortisation and impairment of non-acquired intangible assets $m** | **Depreciation and impairment of property, plant and equipment $m** | Impairment of goodwill, other acquired intangible assets and interests in associates $m | Amortisation of other acquired intangible assets $m | Amortisation and impairment of non-acquired intangible assets $m | Depreciation and impairment of property, plant and equipment $m |
| USA | **–** | **102** | **20** | **118** | – | 58 | 15 | 113 |
| UK | **–** | **–** | **8** | **21** | – | – | 10 | 30 |
| Canada and Central Europe | **–** | **8** | **2** | **8** | – | 7 | 2 | 8 |
| Central and other costs | **9** | **–** | **1** | **–** | 122 | – | 1 | 1 |
| Group | **9** | **110** | **31** | **147** | 122 | 65 | 28 | 152 |

# Notes to the full year results announcement

Year ended 31 July 2019

## 4 – Operating profit

Amounts charged/(credited) in arriving at operating profit from continuing operations include:

| | Notes | **2019 $m** | 2018 $m |
|---|---|---|---|
| Amortisation of acquired intangible assets | 10 | **110** | 65 |
| Amortisation of non-acquired intangible assets | 10 | **31** | 26 |
| Impairment of non-acquired intangible assets | | **–** | 2 |
| Depreciation of property, plant and equipment | 10 | **147** | 145 |
| Impairment of property, plant and equipment | | **–** | 7 |
| Impairment of assets held for sale | | **4** | – |
| Gain on disposal of businesses | 14 | **(23)** | – |
| Amounts included in cost of sales with respect to inventory | | **15,427** | 14,618 |
| Staff costs | | **3,163** | 2,913 |
| Operating lease rentals: land and buildings | | **252** | 240 |
| Operating lease rentals: plant and machinery | | **88** | 85 |
| Trade receivables impairment | | **11** | 13 |

During the year, the Group obtained the following services from the Company's auditor and its associates:

| | **2019 $m** | 2018 $m |
|---|---|---|
| Fees for the audit of the Company and consolidated financial statements | **1.6** | 1.4 |
| Fees for the audit of the Company's subsidiaries pursuant to legislation | **2.2** | 2.6 |
| Total audit fees | **3.8** | 4.0 |
| | | |
| Audit related assurance services | **0.3** | 0.3 |
| Other assurance services | **1.3** | – |
| Other services | **–** | 0.2 |
| Total non-audit fees | **1.6** | 0.5 |
| | | |
| Total fees payable to the auditor | **5.4** | 4.5 |

## 5 – Exceptional items

Exceptional items credited/(charged) to operating profit from continuing operations are analysed by purpose as follows:

| | **2019 $m** | 2018 $m |
|---|---|---|
| Gain on disposal of businesses | **23** | – |
| Business restructuring | **(108)** | (72) |
| Other exceptional items | **(9)** | (10) |
| Total included in operating profit | **(94)** | (82) |

For the year ended 31 July 2019, business restructuring comprises costs incurred in the USA, UK and Canada in respect of their business transformation strategies and costs relating to the change in the Group corporate headquarters.

Other exceptional items of $9 million relate to changes in the defined benefit pension plan in the UK.

During the year, the cash flows relating to exceptional items were $53 million (2018: $59 million) used in respect of operating activities and $169 million (2018: $nil) generated in respect of investing activities.

Exceptional items relating to discontinued operations are disclosed in note 7.

## 6 – Tax

The tax charge for the year comprises:

| | 2019 $m | 2018 $m |
|---|---|---|
| Current year tax charge | **306** | 297 |
| Adjustments to tax charge in respect of prior years | **4** | 7 |
| Total current tax charge | **310** | 304 |
| Deferred tax (credit)/charge: origination and reversal of temporary differences | **(47)** | 42 |
| Total tax charge | **263** | 346 |

An exceptional tax credit of $19 million was recorded against exceptional items (2018: $15 million). The deferred tax credit of $47 million (2018: charge $42 million) includes a charge of $3 million (2018: credit $8 million) resulting from changes in tax rates.

Tax on items credited/(charged) to the Group statement of comprehensive income:

| | 2019 $m | 2018 $m |
|---|---|---|
| Deferred tax credit/(charge) on actuarial loss on retirement benefits | **6** | (17) |
| Total tax on items credited/(charged) to the Group statement of comprehensive income | **6** | (17) |

Tax on items credited to equity:

| | 2019 $m | 2018 $m |
|---|---|---|
| Current tax credit on share-based payments | **5** | 7 |
| Deferred tax credit on share-based payments | **1** | 1 |
| Total tax on items credited to equity | **6** | 8 |

There is no tax charge in the statement of changes in equity which relates to changes in tax rates (2018: $3 million).

The Group has made provisions for the liabilities likely to arise from open audits and assessments. At 31 July 2019, the Group has recognised provisions of $254 million in respect of its uncertain tax positions (2018: $237 million). The total provision has increased by $17 million in the year due primarily to increases related to certain cross border transfer pricing risks. Although there is uncertainty regarding the timing of the resolution of these matters, management do not believe that the Group's uncertain tax provisions constitute a major source of estimation uncertainty as they consider that there is no significant risk of a material change to its estimate of these provisions within the next 12 months.

## 6 – Tax continued

| | | | | | | 2019 |
|---|---|---|---|---|---|---|
| | **Ongoing profit/tax[7]** | | **Non-ongoing and other profit/tax[8]** | | **Total profit/tax from continuing operations** | |
| Tax reconciliation: | **$m** | **%** | **$m** | **%** | **$m** | **%** |
| Profit before tax | **1,529** | | **(205)** | | **1,324** | |
| Expected tax at weighted average tax rate[1] | **(303)** | **19.8** | **83** | **(40.5)** | **(220)** | **16.6** |
| Adjusted for the effects of: | | | | | | |
| over provisions in respect of prior periods[2] | **–** | **–** | **2** | **(1.0)** | **2** | **(0.1)** |
| exceptional items which are non-tax deductible[3] | **–** | **–** | **(7)** | **3.4** | **(7)** | **0.6** |
| current year charge in relation to uncertain tax provisions[4] | **(35)** | **2.3** | **–** | **–** | **(35)** | **2.6** |
| tax credits and incentives | **4** | **(0.3)** | **–** | **–** | **4** | **(0.3)** |
| non-taxable income | **3** | **(0.2)** | **–** | **–** | **3** | **(0.2)** |
| other non-tax deductible expenditure[5] | **(15)** | **1.0** | **(1)** | **0.5** | **(16)** | **1.2** |
| recognition of previously unrecognised deferred tax asset | **–** | **–** | **11** | **(5.4)** | **11** | **(0.8)** |
| other | **2** | **(0.1)** | **(4)** | **2.0** | **(2)** | **0.1** |
| effect of tax rate changes[6] | **–** | **–** | **(3)** | **1.5** | **(3)** | **0.2** |
| Tax (charge)/credit / effective tax rate | **(344)** | **22.5** | **81** | **(39.5)** | **(263)** | **19.9** |

| | | | | | | Restated 2018 |
|---|---|---|---|---|---|---|
| | Ongoing profit/tax[7] | | Non-ongoing and other profit/tax[8] | | Total profit/tax from continuing operations | |
| Tax reconciliation: | $m | % | $m | % | $m | % |
| Profit before tax | 1,445 | | (258) | | 1,187 | |
| Expected tax at weighted average tax rate[1] | (325) | 22.5 | 57 | (22.1) | (268) | 22.6 |
| Adjusted for the effects of: | | | | | | |
| over/(under) provisions in respect of prior periods[2] | 11 | (0.7) | (14) | 5.4 | (3) | 0.3 |
| exceptional items which are non-tax deductible[3] | – | – | (1) | 0.4 | (1) | 0.1 |
| current year (charge)/credit in relation to uncertain tax provisions[4] | (44) | 3.0 | 1 | (0.4) | (43) | 3.6 |
| tax credits and incentives | 5 | (0.3) | – | – | 5 | (0.4) |
| non-tax deductible amortisation/impairment of acquired intangible assets | – | – | (24) | 9.3 | (24) | 2.0 |
| non-taxable income | 7 | (0.5) | – | – | 7 | (0.6) |
| other non-tax deductible expenditure[5] | (28) | 1.9 | – | – | (28) | 2.3 |
| other | 1 | (0.1) | – | – | 1 | (0.1) |
| effect of tax rate changes | 10 | (0.7) | (2) | 0.8 | 8 | (0.7) |
| Tax (charge)/credit / effective tax rate | (363) | 25.1 | 17 | (6.6) | (346) | 29.1 |

1. This expected weighted average tax rate reflects the applicable statutory corporate tax rates on the accounting profits/losses in the countries in which the Group operates after intra-group financing. This results in interest deductions and lower taxable profits in many of the countries and therefore reduces the tax rate. The pre intra-group financing ongoing expected weighted average tax rate is 26.4 per cent (2018: 31.6 per cent) and this is reduced to a post intra-group financing ongoing expected weighted average tax rate of 19.8 per cent (2018: 22.5 per cent) following intra-group financing. The 2.7 per cent decrease in the post intra-group financing ongoing expected weighted average tax rate is primarily due to the reduction in US statutory tax rate and a change in profit mix.
2. This includes adjustments arising out of movements in uncertain tax provisions regarding prior periods and differences between the final tax liabilities in the tax computations and the tax liabilities provided in the consolidated financial statements.
3. This primarily relates to non-taxable disposal of businesses.
4. This reflects management's assessment of the potential tax liability for the current year in relation to open tax issues and audits.
5. This relates to certain expenditure for which no tax relief is available such as disallowable business entertaining costs and legal/professional fees.
6. This relates to the difference between the current tax rate of 19 per cent and deferred tax rate of 17 per cent in the UK.
7. Ongoing profit means profit before tax, exceptional items, the amortisation and impairment of acquired intangible assets and impairment of interests in associates for ongoing operations as defined in note 2. Ongoing tax is the tax expense arising on ongoing profit.
8. Non-ongoing and other profit or loss is profit or loss from non-ongoing operations as defined in note 2 and from the amortisation and impairment of acquired intangible assets, impairment of interests in associates and exceptional items. Non-ongoing and other tax is the tax expense or credit arising on the non-ongoing and other profit or loss and includes other non-recurring tax items. In 2019, the non-ongoing and other credit of $81 million relates primarily to exceptional UK & US restructuring costs, a decrease in uncertain tax provisions in respect of prior periods, tax deductible amortisation in relation to intangible assets, non-taxable disposal of businesses and recognition of deferred tax assets in relation to corporation interest restriction and the amortisation of loan premium.

## 7 – Discontinued operations

The Group disposed of Stark Group on 29 March 2018 and during the year sold its remaining property assets in the Nordic region (together the "disposal group"). In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the disposal group had been classified as discontinued.

The results from discontinued operations, which have been included in the Group income statement, are set out below:

| | **2019** | | | 2018 | | |
|---|---|---|---|---|---|---|
| | **Before exceptional items $m** | **Exceptional items $m** | **Total $m** | Before exceptional items $m | Exceptional items $m | Total $m |
| **Revenue** | **–** | **–** | **–** | 1,705 | – | 1,705 |
| Cost of sales | **–** | **–** | **–** | (1,280) | (5) | (1,285) |
| **Gross profit** | **–** | **–** | **–** | 425 | (5) | 420 |
| Operating costs: | | | | | | |
| gain on disposal of businesses | **–** | **34** | **34** | – | 439 | 439 |
| other | **5** | **8** | **13** | (366) | (32) | (398) |
| Operating income | **5** | **42** | **47** | (366) | 407 | 41 |
| **Operating profit** | **5** | **42** | **47** | 59 | 402 | 461 |
| Net finance income/costs | **1** | **3** | **4** | (6) | 2 | (4) |
| **Profit before tax** | **6** | **45** | **51** | 53 | 404 | 457 |
| Tax | **–** | **(4)** | **(4)** | (31) | – | (31) |
| **Profit from discontinued operations** | **6** | **41** | **47** | 22 | 404 | 426 |
| Basic earnings per share | | | **20.4c** | | | 173.4c |
| Diluted earnings per share | | | **20.3c** | | | 172.1c |

The discontinued exceptional items in 2019 relate predominantly to gains from the sale of Nordic property assets.

The discontinued exceptional items in 2018 relate predominantly to the disposal of Stark Group, gains from the sale of Nordic property assets and an impairment charge for the remaining Nordic properties.

During the year, discontinued operations used cash of $16 million (2018: $120 million) in respect of operating activities, generated $121 million (2018: $1,368 million) in respect of investing activities and used $nil (2018: $99 million) in respect of financing activities.

## 8 – Dividends

Amounts recognised as distributions to equity shareholders:

| | **2019 $m** | 2018 $m |
|---|---|---|
| Final dividend for the year ended 31 July 2017: 73.33 pence per share | **–** | 248 |
| Interim dividend for the year ended 31 July 2018: 57.4 cents per share | **–** | 142 |
| Special dividend: $4 per share | **–** | 974 |
| Final dividend for the year ended 31 July 2018: 131.9 cents per share | **303** | – |
| Interim dividend for the year ended 31 July 2019: 63.1 cents per share | **146** | – |
| Dividends paid | **449** | 1,364 |

Since the end of the financial year, the Directors have proposed a final ordinary dividend of $332 million (145.1 cents per share). The dividend is subject to approval by shareholders at the Annual General Meeting and is therefore not included in the balance sheet as a liability at 31 July 2019.

The interim, special and final dividends for the year ended 31 July 2018 and the interim dividend for the year ended 31 July 2019 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) will be different to that stated above.

## 9 – Earnings per share

| | 2019 Earnings $m | 2019 Basic earnings per share cents | 2019 Diluted earnings per share cents | 2018 Earnings $m | 2018 Basic earnings per share cents | 2018 Diluted earnings per share cents |
|---|---|---|---|---|---|---|
| Profit from continuing and discontinued operations attributable to shareholders of the Company | **1,108** | **481.3** | **477.8** | 1,267 | 515.7 | 511.9 |
| Profit from discontinued operations | **(47)** | **(20.4)** | **(20.3)** | (426) | (173.4) | (172.1) |
| Profit from continuing operations | **1,061** | **460.9** | **457.5** | 841 | 342.3 | 339.8 |
| Non-recurring tax (credit)/charge relating to changes in tax rates and other adjustments | **(33)** | **(14.3)** | | 16 | 6.4 | |
| Amortisation and impairment of acquired intangible assets and impairment of interests in associates (net of tax) | **91** | **39.5** | | 168 | 68.4 | |
| Exceptional items (net of tax) | **72** | **31.3** | | 67 | 27.3 | |
| Headline profit after tax from continuing operations | **1,191** | **517.4** | | 1,092 | 444.4 | |

The weighted average number of ordinary shares in issue during the year, excluding those held by Employee Benefit Trusts and those held by the Company as Treasury shares, was 230.2 million (2018: 245.7 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 231.9 million (2018: 247.5 million).

## 10 - Intangible and tangible assets

| | Goodwill $m | Other intangible assets: Acquired intangible assets $m | Other intangible assets: Software $m | Other intangible assets: Total $m | Property, plant and equipment $m | Total intangible and tangible assets $m |
|---|---|---|---|---|---|---|
| Net book value at 1 August 2018 | 1,408 | 237 | 71 | 308 | 1,086 | 2,802 |
| Additions | – | – | 36 | 36 | 374 | 410 |
| Acquisitions | 259 | 224 | – | 224 | 95 | 578 |
| Disposals | – | – | (2) | (2) | (9) | (11) |
| Adjustment to fair value on prior year acquisitions | (6) | 7 | – | 7 | – | 1 |
| Disposal of business | – | (2) | (5) | (7) | (39) | (46) |
| Depreciation and amortisation | – | (110) | (31) | (141) | (147) | (288) |
| Exchange rate adjustment | (5) | – | (2) | (2) | (11) | (18) |
| Net book value at 31 July 2019 | **1,656** | **356** | **67** | **423** | **1,349** | **3,428** |

Goodwill and intangible assets acquired during the year have been allocated to the individual cash generating units or aggregated cash generating units (together "CGUs") which are deemed to be the smallest identifiable group of assets generating independent cash inflows. CGUs have been aggregated in the disclosure below at a segmental level except for certain CGUs in the USA which are considered to be significant (more than 10 per cent of the current year goodwill balance). Impairment reviews were performed for each individual CGU during the year ended 31 July 2019.

| | 2019 Long-term growth rate % | 2019 Post-tax discount rate % | 2019 Pre-tax discount rate % | 2019 Goodwill $m | 2018[1] Long-term growth rate % | 2018[1] Post-tax discount rate % | 2018[1] Pre-tax discount rate % | 2018[1] Goodwill $m |
|---|---|---|---|---|---|---|---|---|
| Blended Branches | | | | **830** | | | | 623 |
| B2C | | | | **294** | | | | 294 |
| Waterworks | | | | **188** | | | | 169 |
| Rest of USA | | | | **163** | | | | 131 |
| USA | **2.2** | **9.3** | **12.6** | **1,475** | 2.1 | 9.0 | 12.0 | 1,217 |
| UK | **2.0** | **8.0** | **9.8** | **39** | 2.0 | 7.6 | 9.3 | 43 |
| Canada | **2.0** | **8.5** | **11.6** | **142** | 2.0 | 8.4 | 11.5 | 148 |
| Total | | | | **1,656** | | | | 1,408 |

1. On conclusion of the acquisition accounting for several own brand businesses acquired in 2018 it has been determined that they are part of the Blended Branches CGU. These were included in rest of USA in the prior year and as such the comparative has been reclassified for comparability.

## 10 – Intangible and tangible assets continued

The relevant inputs, including key assumptions, to the value in use calculations of each CGU are set out below.

Cash flow forecasts for years one to three are derived from the most recent Board approved strategic plan. The forecast for year five represents an estimate of "mid-cycle" trading performance for the CGU based on historic analysis. Year four is calculated as the average of the final year of the strategic plan and year five's mid-cycle estimate. The other inputs include a risk-adjusted, pre-tax discount rate, calculated by reference to the weighted average cost of capital ("WACC") of each country and the 30-year long-term growth rate by country, as published by the IMF in April 2019.

The strategic plan is developed based on analyses of sales, markets and costs at a regional level. Consideration is given to past events, knowledge of future contracts and the wider economy. It takes into account both current business and future initiatives.

Management has performed a sensitivity analysis across all CGUs which have goodwill and acquired intangible assets using reasonably possible changes in the following key impairment review assumptions: compound average revenue growth rate, post-tax discount rate and long-term growth rate, keeping all other assumptions constant. The sensitivity testing identified no reasonably possible changes in key assumptions that would cause the carrying amount of any CGU to exceed its recoverable amount.

## 11 – Provisions

| | Environmental and legal $m | Wolseley Insurance $m | Restructuring $m | Other provisions $m | Total $m |
|---|---|---|---|---|---|
| At 31 July 2017 | 78 | 72 | 59 | 57 | 266 |
| Utilised in the year | (3) | (23) | (38) | (7) | (71) |
| Changes in discount rate | (4) | – | – | – | (4) |
| Charge for the year | 12 | 24 | 31 | 12 | 79 |
| Acquisition of businesses | – | – | – | 4 | 4 |
| Exchange rate adjustment | (1) | 1 | (1) | 1 | – |
| At 31 July 2018 | **82** | **74** | **51** | **67** | **274** |
| Utilised in the year | **(5)** | **(18)** | **(22)** | **(5)** | **(50)** |
| Changes in discount rate | **5** | **–** | **–** | **–** | **5** |
| (Credit)/charge for the year | **(1)** | **22** | **13** | **7** | **41** |
| Acquisition of businesses | **2** | **–** | **–** | **–** | **2** |
| Exchange rate adjustment | **(1)** | **(1)** | **(2)** | **(3)** | **(7)** |
| At 31 July 2019 | **82** | **77** | **40** | **66** | **265** |

Provisions have been analysed between current and non-current as follows:

| **At 31 July 2019** | **Environmental and legal $m** | **Wolseley Insurance $m** | **Restructuring $m** | **Other provisions $m** | **Total $m** |
|---|---|---|---|---|---|
| Current | **12** | **6** | **25** | **36** | **79** |
| Non-current | **70** | **71** | **15** | **30** | **186** |
| Total provisions | **82** | **77** | **40** | **66** | **265** |

| At 31 July 2018 | Environmental and legal $m | Wolseley Insurance $m | Restructuring $m | Other provisions $m | Total $m |
|---|---|---|---|---|---|
| Current | 16 | 11 | 32 | 36 | 95 |
| Non-current | 66 | 63 | 19 | 31 | 179 |
| Total provisions | 82 | 74 | 51 | 67 | 274 |

The environmental and legal provision includes $70 million (2018: $69 million) for the estimated liability for asbestos litigation on a discounted basis using a long-term discount rate of 2.0 per cent (2018: 3.0 per cent). This amount has been actuarially determined as at 31 July 2019 based on advice from independent professional advisers. The Group has insurance that it currently believes significantly covers the estimated liability and accordingly an insurance receivable has been recorded in other receivables. Based on current estimates, the amount of performing insurance cover significantly exceeds the expected level of future claims and no material profit or cash flow impact is therefore expected to arise in the foreseeable future. Due to the nature of these provisions, the timing of any settlements is uncertain.

Wolseley Insurance provisions represent an estimate, based on historical experience, of the ultimate cost of settling outstanding claims and claims incurred but not reported on certain risks retained by the Group (principally USA casualty and global property damage). Due to the nature of these provisions, the timing of any settlements is uncertain.

## 11 – Provisions continued

Restructuring provisions include provisions for staff redundancy costs and future lease rentals on closed branches. The weighted average maturity of these obligations is approximately two years.

Other provisions include warranty costs relating to businesses disposed of, rental commitments on vacant properties and dilapidations on leased properties. The weighted average maturity of these obligations is approximately two years.

## 12 – Reconciliation of profit to cash generated from operations

Profit for the year is reconciled to cash generated from continuing and discontinued operations as follows:

| | **2019 $m** | 2018 $m |
|---|---|---|
| Profit for the year attributable to shareholders | **1,108** | 1,267 |
| Net finance costs | **70** | 57 |
| Share of profit after tax of associates | **(2)** | (2) |
| Gain on disposal of interests in associates | **(3)** | – |
| Impairment of interests in associates | **9** | 122 |
| Tax charge | **267** | 377 |
| Profit on disposal and closure of businesses and revaluation of assets held for sale | **(53)** | (407) |
| Amortisation and impairment of goodwill and acquired intangible assets | **110** | 65 |
| Amortisation and impairment of non-acquired intangible assets | **31** | 28 |
| Depreciation and impairment of property, plant and equipment | **147** | 152 |
| Profit on disposal of property, plant and equipment and assets held for sale | **(7)** | (6) |
| Increase in inventories | **(172)** | (102) |
| Increase in trade and other receivables | **(132)** | (351) |
| Increase in trade and other payables | **227** | 208 |
| Decrease in provisions and other liabilities | **(25)** | (120) |
| Share-based payments | **34** | 35 |
| Cash generated from operations | **1,609** | 1,323 |

## 13 – Acquisitions

The Group acquired the following businesses during the year ended 31 July 2019. All these businesses are engaged in the distribution of plumbing and heating products and were acquired to support growth in the USA and Canada. All transactions have been accounted for by the acquisition method of accounting.

| **Name** | **Date of acquisition** | **Country of incorporation** | **Shares/asset deal** | **% acquired** |
|---|---|---|---|---|
| Jones Stephens | August 2018 | USA | Shares | 100 |
| Action Automation, Inc. | August 2018 | USA | Assets | 100 |
| Millennium Lighting, Inc. | August 2018 | USA | Shares | 100 |
| Grand Junction Pipe & Supply | September 2018 | USA | Assets | 100 |
| James Electric Motor Services Ltd. | September 2018 | Canada | Shares | 100 |
| Dogwood Building Supply | October 2018 | USA | Assets | 100 |
| Capital Distributing[1] | October 2018 | USA | Assets | 100 |
| Robertson Supply, Inc. | November 2018 | USA | Assets | 100 |
| Wallwork Bros., Inc. | December 2018 | USA | Assets | 100 |
| Blackman Plumbing Supply[2] | December 2018 | USA | Shares | 100 |
| James Martin Signature Vanities[3] | January 2019 | USA | Shares | 100 |
| Kitchen Art of South Florida, LLC | February 2019 | USA | Assets | 100 |
| Mission Valley Pipe & Supply, Inc. | June 2019 | USA | Assets | 100 |
| Action Plumbing Supply Co. | July 2019 | USA | Assets | 100 |
| Innovative Soil Solutions LLC | July 2019 | USA | Assets | 100 |

1. The acquisition comprised of 2 legal entities.
2. The acquisition comprised of 6 legal entities.
3. The acquisition comprised of 2 legal entities.

## 13 – Acquisitions continued

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

| | Provisional fair values acquired $m |
|---|---|
| Intangible assets | |
| Customer relationships | **202** |
| Trade names and brands | **19** |
| Other | **3** |
| Property, plant and equipment | **95** |
| Inventories | **122** |
| Trade and other receivables | **93** |
| Cash, cash equivalents and bank overdrafts | **11** |
| Obligations under finance leases | **(3)** |
| Trade and other payables | **(71)** |
| Deferred tax | **(33)** |
| Provisions | **(2)** |
| Total | **436** |
| Goodwill arising | **259** |
| Consideration | **695** |

| | |
|---|---|
| Satisfied by: | |
| Cash | **656** |
| Deferred consideration | **39** |
| Total consideration | **695** |

The fair values acquired are provisional figures, being the best estimates currently available. Further adjustments may be necessary 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 additional profitability and operating efficiencies available in respect of existing markets.

The acquisitions contributed $456 million to revenue, $22 million to trading profit and $19 million loss to the Group's operating profit for the period between the date of acquisition and the balance sheet date. It is not practicable to disclose profit before and after tax, as the Group manages its borrowings as a portfolio and cannot attribute an effective borrowing rate to an individual acquisition.

If each acquisition had been completed on the first day of the financial year, continuing revenue would have been $22,241 million and continuing trading profit would have been $1,625 million. It is not practicable to disclose profit before tax or profit attributable to shareholders of the Company, as stated above. It is also not practicable to disclose 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 respect of the purchase of businesses is as follows:

| | 2019 $m | 2018 $m |
|---|---|---|
| Purchase consideration | **656** | 376 |
| Deferred and contingent consideration in respect of prior year acquisitions | **12** | 47 |
| Cash consideration | **668** | 423 |
| Cash, cash equivalents and bank overdrafts acquired | **(11)** | (7) |
| Net cash outflow in respect of the purchase of businesses | **657** | 416 |

## 14 – Disposals

During the year ended 31 July 2019, the Group disposed of the following businesses:

| Name | Country | Date of disposal | Shares/asset deal |
|---|---|---|---|
| Ferguson Property Rover A/S | Denmark | November 2018 | Shares |
| Brokvarteret Komplementar ApS | Denmark | November 2018 | Shares |
| Brokvarteret P/S | Denmark | November 2018 | Shares |
| Wasco Holding B.V. | Netherlands | January 2019 | Shares |
| Luxury For Less Limited (t/a Soak.com) | United Kingdom | March 2019 | Shares |
| Soborg Property Denmark A/S | Denmark | March 2019 | Shares |

The Group recognised a total gain on disposals of $57 million as follows:

| | 2019 | | |
|---|---|---|---|
| | **Continuing operations $m** | **Discontinued operations $m** | **Group $m** |
| Consideration received | **109** | **110** | **219** |
| Net assets disposed of | **(76)** | **(72)** | **(148)** |
| Non-controlling interest disposed of | **(1)** | **–** | **(1)** |
| Disposal costs and provisions | **(10)** | **(2)** | **(12)** |
| Recycling of deferred foreign exchange losses | **1** | **(2)** | **(1)** |
| Gain on disposal | **23** | **34** | **57** |

The net inflow of cash in respect of the disposal of businesses is as follows:

| | 2019 | | |
|---|---|---|---|
| | **Continuing operations $m** | **Discontinued operations $m** | **Group $m** |
| Cash consideration received for current year disposals (net of cash disposed of) | **108** | **110** | **218** |
| Cash paid in respect of prior year disposals | **–** | **(1)** | **(1)** |
| Disposal costs paid | **(5)** | **(11)** | **(16)** |
| Net cash inflow | **103** | **98** | **201** |

## 15 – Reconciliation of opening to closing net debt

| | Cash and cash equivalents $m | Bank overdrafts $m | Total cash, cash equivalents and bank overdrafts $m | Liabilities from financing activities: Derivative financial instruments $m | Liabilities from financing activities: Loans $m | Liabilities from financing activities: Obligations under finance leases $m | Net debt $m |
|---|---|---|---|---|---|---|---|
| At 1 August 2017 | 2,525 | (1,982) | 543 | 26 | (1,266) | (9) | (706) |
| Cash movements | | | | | | | |
| Proceeds from loans and derivatives | | | – | (9) | (450) | – | (459) |
| Repayments of loans | | | – | – | 261 | – | 261 |
| Finance lease capital payments | | | – | – | – | 4 | 4 |
| Changes in net debt due to disposal of businesses | | | (42) | – | 7 | – | (35) |
| Changes in net debt due to acquisition of businesses | | | 7 | – | – | – | 7 |
| Held for sale movements | | | 43 | – | (105) | – | (62) |
| Other cash flows | | | (86) | – | – | – | (86) |
| Non-cash movements | | | | | | | |
| New finance leases | | | – | – | – | (1) | (1) |
| Fair value and other adjustments | | | – | (17) | 16 | – | (1) |
| Exchange movements | | | (7) | (2) | 7 | – | (2) |
| At 31 July 2018 | **833** | **(375)** | **458** | **(2)** | **(1,530)** | **(6)** | **(1,080)** |
| Cash movements | | | | | | | |
| Proceeds from loans and derivatives | | | **–** | **(7)** | **(750)** | **–** | **(757)** |
| Repayments of loans | | | **–** | **–** | **2** | **–** | **2** |
| Finance lease capital payments | | | **–** | **–** | **–** | **3** | **3** |
| Changes in net debt due to disposal of businesses | | | **(1)** | **–** | **–** | **–** | **(1)** |
| Changes in net debt due to acquisition of businesses | | | **11** | **–** | **–** | **(3)** | **8** |
| Other cash flows | | | **628** | **–** | **–** | **–** | **628** |
| Non-cash movements | | | | | | | |
| Fair value and other adjustments | | | **–** | **25** | **(26)** | **–** | **(1)** |
| Exchange movements | | | **(10)** | **6** | **7** | **–** | **3** |
| At 31 July 2019 | **1,133** | **(47)** | **1,086** | **22** | **(2,297)** | **(6)** | **(1,195)** |

## 16 – Contingent liabilities

Group companies are, from time to time, subject to certain claims and litigation arising in the normal course of business in relation to, among other things, the products that they supply, contractual and commercial disputes and disputes with employees. Provision is made if, on the basis of current information and professional advice, liabilities are considered likely to arise. In the case of unfavourable outcomes, the Group may benefit from applicable insurance protection.

**Warranties and indemnities in relation to business disposals**

Over the past few years, the Group has disposed of a number of non-core businesses and various Group companies have provided certain standard warranties and indemnities to acquirers and other third parties. Provision is made where the Group considers that a liability is likely to crystallise, though it is possible that claims in respect of which no provision has been made could crystallise in the future. Group companies have also made contractual commitments for certain property and other obligations which could be called upon in an event of default. As at the date of this report, there are no significant outstanding claims in relation to business disposals.

**Environmental liabilities**

The operations of certain Group companies are subject to specific environmental regulations. From time to time, the Group conducts preliminary investigations through third parties to assess potential risks including potential soil or groundwater contamination of sites. Where an obligation to remediate contamination arises, this is provided for, though future liabilities could arise from sites for which no provision is made.

**Outcome of claims and litigation**

The outcome of claims and litigation to which Group companies are party cannot readily be foreseen as, in some cases, the facts are unclear, further time is needed to assess properly the merits of the case, or they are part of continuing legal proceedings. However, based on information currently available, the Directors consider that the cost to the Group of an unfavourable outcome arising from such litigation is not expected to have a material adverse effect on the financial position of the Group.

## 17 – Exchange rates

The results of overseas subsidiaries have been translated into US dollars using average rates of exchange. The year end rates of exchange have been used to convert balance sheet amounts. The principal currencies impacting the full year results announcement are as follows:

| | **2019** | 2018 |
|---|---|---|
| **Pounds sterling translation rate** | | |
| Income statement | **0.78** | 0.74 |
| Balance sheet | **0.82** | 0.76 |
| **Euro translation rate** | | |
| Income statement | **0.88** | 0.84 |
| Balance sheet | **0.90** | 0.86 |
| **Canadian dollar translation rate** | | |
| Income statement | **1.32** | 1.27 |
| Balance sheet | **1.32** | 1.30 |