FERGUSON

Results for the year ended July 31, 2020

September 29, 2020

STRONG AND RESILIENT PERFORMANCE DURING HIGHLY CHALLENGING PERIOD.
CONTINUED ROBUST FINANCIAL POSITION.

US$ millions	2020	2019	Change
Statutory financial results			
Revenue	21,819	22,010	(0.9%)
Profit before tax	1,261	1,324	(4.8%)
Total basic earnings per share	427.5c	481.3c	(11.2%)
Total ordinary dividend per share	208.2c	208.2c	-
Alternative performance measures[1]			
Ongoing revenue	19,940	19,549	+2.0%
Ongoing gross margin	30.0%	30.0%	-
Ongoing trading profit	1,663	1,532	+8.6%
Less impact of IFRS 16	(68)	-	
Ongoing underlying trading profit	1,595	1,532	+4.1%
Headline earnings per share	511.6c	517.4c	(1.1%)
Adjusted EBITDA[2]	1,802	1,793	+0.5%
Net debt : adjusted EBITDA[2]	0.6x	0.7x	

Highlights

- Ongoing revenue 2.0% ahead of last year with continued market share gains in the US.
- US revenue growth of 2.7% and underlying trading profit growth of 5.2%.
- Good gross margin and cost control ensured trading profit growth outpaced revenue growth.
- Total basic earnings per share 11.2% lower due to higher effective tax rate from previously announced tax reform and exceptional discontinued disposal gains in the prior year.
- Excellent operating cash generation and the Group has maintained a strong balance sheet and liquidity position.
- Invested $351 million in 6 acquisitions before pausing activity in March.
- Taking into account the Group's prospects and strong financial position restoring total ordinary dividend to same level as 2018/19 of 208.2 cents per share.
- Bill Brundage, current CFO of Ferguson Enterprises to succeed Mike Powell as Group CFO on November 1, 2020 as announced separately today. Mike will step down on October 31, 2020.

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.
2. Net debt excludes lease liabilities and Adjusted EBITDA excludes the impact of IFRS 16.

FERGUSON

Results for the year ended July 31, 2020

Kevin Murphy, Group Chief Executive, commented:

"We have delivered a strong performance in 2020, which given the global pandemic has highlighted the resilience of our business model. Early in the crisis we moved decisively to protect the health and wellbeing of our associates while continuing to serve our customers supporting critical infrastructure. We have rapidly adjusted our ways of working to adapt to this new operating reality while taking action to lower the cost base. We have also managed working capital and capital expenditure which alongside the strong profit delivery has led to an excellent cash performance.

"On an ongoing basis we delivered Group revenue growth and grew trading profit ahead of revenue despite lockdowns in the second half. I would like to thank all of our 34,000 associates for their dedication and commitment during this challenging period. They have demonstrated a remarkable ability to adapt to an unprecedented change in their personal and professional lives while still delivering outstanding service to our customers.

"We have the necessary safeguards in place to protect our associates and support our customers and the majority of our colleagues are now back at work. We continue to execute our strategy of developing the business through organic growth and given recent better than expected trading we are now proposing to reinstate ordinary dividends.

"It is impossible to predict the future progress of the virus, or its economic impact and we expect the current levels of uncertainty to continue for the foreseeable future. However, the fundamental aspects of our business model remain attractive and since the start of the new financial year Ferguson has generated low single digit revenue growth in the US in flat markets overall. While we remain cautious on the outlook for the year as a whole, the business is in good shape and well prepared to address any further market related disruption."

For further information please contact

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A live analyst and investor presentation will be webcast at 1200 UK time (0700 ET) today. This event will be available on www.fergusonplc.com and we recommend you register at 1145 UK time (0645 ET).

To join the presentation by call please use the following dial in details:

United Kingdom:	+44 (0)20 3936 2999
United States:	+1 646 664 1960

Participant access code: 868057

Financial results

Ferguson delivered a strong and resilient trading result for the year, achieved despite the pandemic which started to emerge from March 2020 onwards. The impact on our business in the second half was significant and a summary of our approach to navigate the business though the pandemic is set out below:

COVID-19 response

Our approach to managing the business has been to focus on three key areas:

1. Protecting the health and wellbeing of our associates;
2. Continuing to serve our customers during the crisis phase of the virus - a critical time of need; and
3. Protecting and preserving the strength of our businesses for the long-term.

To safeguard the wellbeing of our associates and support our customers we immediately moved to operating our business in adherence with the recommended Center for Disease Control (CDC) guidelines. Cleaning protocols at all sites were put into operation alongside appropriate social distancing measures. In the early weeks of the pandemic our branches moved to pick-up and delivery only with customers encouraged to order ahead with pick-up in store or at the curbside. Showrooms moved to virtual appointments only and we also implemented new processes and protocols to keep our drivers safe including touchless signature at the point of delivery or pick-up location. At the peak of the pandemic about 14,000 US associates (over 50%) were working remotely supported by technology.

Ferguson provides a critical function in the supply of essential products and services. In March we took decisive steps to ensure our key services were authorized as 'essential' which included Government and state level liaison across our key geographies. This allowed our associates to continue to serve customers, including supermarkets, hospitals, schools, public utilities, food producers and other manufacturers.

Ferguson has an agile business model and as short-term revenue pressure impacted the business during April, a key priority was the preservation of the cash flow of the business. We therefore identified significant cost and cash savings and these measures, some of which were temporary, have enabled us to remain highly cash generative in the second half of the year. We also took decisive action to ensure the business is appropriately sized for the post COVID-19 operating environment. Cash savings included suspension of the $500 million share buy back program, withdrawal of the interim dividend payment, a pause in the M&A program and tight control over capital expenditure. The Group has retained a strong financial position throughout the pandemic.
Since May, as local lockdown restrictions have been lifted we have reopened all of our customer facing locations in adherence with guidance given by state and local government authorities. A summary of trading conditions during the pandemic is set out by country below.

Statutory results

Revenue of $21,819 million (2019: $22,010 million) was 0.9% lower than last year and the prior year comparator included revenue of $239 million for businesses sold in 2019. Statutory profit before tax was $1,261 million (2019: $1,324 million) after exceptional charges. Profit attributable to shareholders was lower at $961 million (2019: $1,108 million) due principally to a higher tax rate, arising from previously announced tax reform, in the current year and exceptional disposal gains in the prior year.

Alternative performance measures

Ongoing revenue of $19,940 million (2019: $19,549 million) was 2.0% ahead of last year but 0.1% lower on an organic basis. Inflation in the year was broadly flat. Ongoing gross margins of 30.0% (2019: 30.0%) were in line with last year as a result of good pricing discipline, reflecting the value we deliver to our customers. Operating expenses in the ongoing business were tightly controlled and in the second half included the specific COVID-19 actions outlined earlier. In addition to temporary measures such as a hiring freeze, reductions in overtime and temps and temporary lay-offs we took decisive actions to right-size the cost base for the market environment.

During the year we reduced net permanent headcount by approximately 2,100 across the US, Canada and UK and made 94 branch closures.

Ongoing underlying trading profit was $1,595 million (2019: $1,532 million), 4.1% ahead of last year as the actions on costs contained the profit reduction from lower revenue in the second half. There was one additional trading day compared to last year which increased ongoing underlying trading profit by about $17 million. Acquisitions generated revenue of $356 million and trading profit of $16 million in the year.

Operating and financial review

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

Regional analysis

US$ millions	Revenue 2020	Revenue 2019	Change	Trading profit 2020	Less impact of IFRS 16 2020	Underlying trading profit 2020	Trading profit 2019	Change
USA	18,857	18,358	+2.7%	1,654	(67)	1,587	1,508	+5.2%
Canada	1,083	1,191	(9.1%)	44	(1)	43	67	(35.8%)
Central costs	-	-		(35)	-	(35)	(43)	
Ongoing operations	19,940	19,549	+2.0%	1,663	(68)	1,595	1,532	+4.1%
UK (non-ongoing) [1]	1,879	2,222	(15.4%)	9	(1)	8	69	(88.4%)

1) 2019 UK (non-ongoing) numbers are presented excluding soak.com which contributed $59 million of revenue and a $4 million trading loss in 2019. soak.com was sold in Q3 2019.

Quarterly organic revenue growth

	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	FY 2020
USA	+3.0%	+3.1%	+2.1%	(1.0%)	(2.4%)	+0.4%
Canada	(5.2%)	(6.4%)	(6.7%)	(14.9%)	(5.6%)	(8.0%)
Ongoing Group	+2.5%	+2.5%	+1.6%	(1.7%)	(2.6%)	(0.1%)

USA

The US business grew revenue by 2.7% which included acquisitions growth of 1.9%. Price inflation was broadly flat. Blended Branches revenue grew 0.4% in the year, with growth constrained during the lockdown period. Waterworks and eBusiness grew well with revenue up by 9.1% and 12.2% respectively. HVAC grew by 9.4% while Industrial revenue was 11.8% lower in the year.

Revenue growth was strong overall in the first half with good momentum going into the first two months of the second half before the virus hit. Revenue was lowest in April down 9.3% and we have seen a steady sequential recovery in monthly revenue growth rates through the Summer. The business returned to organic revenue growth in August. The major impact on volume continues to be highly correlated to the degree of disruption locally which has been variable across the US states and localities. Initially we saw more significant impacts in coastal states including New York and California while the mid-west and south east regions were less impacted. Our counter and showroom locations were open by mid-June to support customers with appropriate protective measures in place. We continue to encourage customers to use our e-commerce tools and we have seen strong adoption rates from customers during the pandemic with increased user activity of our mobile experience for trade customers.

During the pandemic Blended Branches revenue was lowest in April down 15.3% impacted by significant revenue declines in the hotspot locations such as New England, New York, Michigan, the Pacific North West and Northern California. Since April revenue growth rates have recovered steadily. eBusiness generated very strong revenue growth as it benefited from increased consumer demand for home improvement products. Waterworks initially generated strong revenue growth benefiting from fewer operating restrictions though recent trends have been weaker as a result of tough prior year comparators. HVAC having initially been adversely impacted by local lockdowns with revenues down 17.0% in April, returned to growth in June. Over the Summer HVAC benefited from good residential markets, with high levels of repair and remodel activity from consumers based at home and the contribution of the S.W. Anderson acquisition.

The organic revenue growth by end market was as follows:

	% of US revenue	Estimated Market Growth H1 2020	Estimated Market Growth H2 2020	Estimated Market Growth 2020	**2020 Organic revenue growth**
Residential	54%	+1%	(3%)	(1%)	**+2%**
Commercial	32%	+1%	(6%)	(3%)	**(1%)**
Civil / Infrastructure	7%	+3%	(1%)	+1%	**+6%**
Industrial	7%	(6%)	(19%)	(13%)	**(12%)**
		Flat	(6%)	(3%)	**+0.4%**

Over the last six months residential RMI markets have remained fairly resilient with good single family activity levels. Commercial markets have weakened overall with the weakest spots in retail, office and lodging though partially offset by strong activity in distribution and data centers, and healthcare projects. Civil markets were resilient in the initial lockdowns but as we moved in to Q4 the civil market turned negative as municipal funding became more restricted. Industrial markets have remained challenging through the year due in part to depressed oil prices and a tough operating environment for manufacturing during the pandemic.

Gross margins were well controlled with good pricing discipline and reflect the value we deliver to our customers. During the early months of COVID-19 there was an adverse product mix effect from strong Waterworks revenue which is lower gross margin and the impact of the closure of bricks and mortar counter and showroom facilities which generate attractive gross margins.

We took a number of prudent cost saving measures to protect short-term profitability including a hiring freeze, a reduction in associate hours, overtime and temporary staff, and temporary lay-offs being implemented in the worst hit regions. We have made net reductions to permanent headcount of approximately 1,400 during the year and consolidated 78 branch locations in order to appropriately size the business for the post COVID-19 operating environment. We expect the $65 million of US restructuring costs to have a payback period of approximately one year.

Before acquisitions were paused in March, five bolt-on acquisitions were completed in the year with total annualized revenues of $333 million. The largest was Columbia Pipe & Supply which specializes in PVF, commercial mechanical, commercial plumbing, industrial, valve automation, engineered products and hydronics. The business operates from 16 locations in five states in the Midwest region and generated revenue of $220 million in the year ended December 31, 2019.

Underlying trading profit of $1,587 million (2019: $1,508 million) was 5.2% ahead of last year and the underlying trading margin was 8.4% (2019: 8.2%).

Canada

In Canada, revenue was 9.1% lower with inflation of approximately 2%. Industrial end markets and Western Canada were weak during the year and markets remained generally challenging this year even prior to the country wide COVID-19 lockdown period. The business returned to organic revenue growth in August.

Gross margins were slightly lower than last year and despite cost cutting measures underlying trading profit of $43 million was $24 million lower than last year. We have reduced net headcount by approximately 300 during the year and closed 7 branch locations to right size the business for the current environment.

Central costs

Central costs in the year were $35 million, $8 million lower than last year mainly due to lower incentive costs.

UK (non-ongoing operations)

Revenue declined by 15.4% in the UK, primarily due to the COVID-19 lockdown restrictions. Acquisitions contributed 1.8% and inflation was approximately 1%. Gross margins were a touch lower and underlying trading profit of $8 million was $61 million behind last year as the national lockdown severely impacted demand. We have seen a sequential improvement in revenue trends since April in line with the easing of lockdown measures and the business returned to organic revenue growth in August.

Towards the end of the financial year we have refocused the business on a clear customer proposition and to drive operational efficiencies. This included separating out Building Services from the core Plumbing and Heating business to better align our service offering with our customers' needs. We have also rationalized the supply chain reducing capacity to lower the cost base which included the closure of the Worcester distribution facility in June. We have reduced net permanent headcount by approximately 400 and closed 9 branches during the year as markets continue to look challenging in the near term.

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

Exceptional items

Net exceptional charges to operating profit of $120 million (2019: $94 million) principally comprised business restructuring across the USA, Canada and UK in respect of cost actions taken to ensure the Group is appropriately sized for the post COVID-19 operating environment. There were also some additional costs relating to the proposed UK separation and the planned listing in the USA.

Finance costs

Net finance costs were $144 million (2019: $74 million) with $53 million of the increase due to the adoption of IFRS 16. The remaining increase was principally due to a higher level of average gross debt than last year.

Tax

The Group incurred a tax charge of $307 million (2019: $263 million) on profit before tax of $1,261 million (2019: $1,324 million). This includes an ongoing tax charge of $376 million (2019: $339 million) which equates to an ongoing effective tax rate of 24.9% (2019: 23.3%) on the ongoing profit before tax, exceptional items and other items. The increase in the effective tax rate in the current year is due to previously announced tax reform.

Earnings per share

Total basic earnings per share, including discontinued operations, were 427.5 cents (2019: 481.3 cents). Headline earnings per share decreased by 1.1% to 511.6 cents (2019: 517.4 cents) mainly due to a higher effective tax rate from previously announced tax reform.

Cash flow

The Group continued to generate strong cash flows with cash generated from operations of $1,904 million[1] (2019: $1,609 million). Working capital was well controlled with a particularly good receivables performance. Net interest[1] and tax amounted to $331 million (2019: $319 million) and acquisitions amounted to $351 million (2019: $657 million). Capital investment decreased slightly to $302 million (2019: $418 million) as we tightly managed cash outflows. Ordinary dividends paid amounted to $327 million (2019: $445 million) and share buy backs amounted to $451 million (2019: $150 million). Return on gross capital employed decreased to 23.9% (2019: 26.2%) with the reduction due to a flat return but a higher average capital employed during the year.

[1] Cash generated from operations is presented excluding IFRS 16. IFRS 16 has no impact on net cash flow but does increase cash generated from operations by $348 million, increase interest paid by $53 million and increase lease liability capital payments by $295 million.

Net debt, liquidity and pensions

Throughout the pandemic to date Ferguson has remained in a strong financial position with long term committed facilities. The Group's net debt at July 31, 2020 was $1,012 million (July 31, 2019: $1,195 million) and the ratio of net debt to adjusted EBITDA was 0.6x (July 31, 2019: 0.7x). Net debt would have been approximately $100 million higher before short term fluctuations in working capital at the year end. The Group has a strong liquidity position and aims to operate with a net debt to adjusted EBITDA ratio of between 1x and 2x. Given the Group's strong financial position, the Directors consider it appropriate to continue to adopt the going concern basis in preparing the financial statements. Further details of the going concern assessment can be found in note 1.

In June 2020, Ferguson announced that it had issued $600 million principal aggregate amount of bonds at 3.25% with a ten-year maturity. Additionally, we agreed a $500 million bilateral facility in March 2020 with a one-year term. As at 31 July 2020 the Group had c.$4.1 billion of available liquidity comprising readily available cash of approximately $1.9 billion and $2.2 billion of undrawn facilities.

The IFRS 16 lease liability recognized on the balance sheet as at July 31, 2020 was $1,355 million.

At July 31, 2020 the Group's net pension position was a net deficit of $61 million (2019: net asset of $153 million).

Capital allocation and shareholder returns

Since 2009, Ferguson's investment priorities have remained firmly focused on investing in the business and consistently generating above market organic growth. We also set out to maintain and grow the ordinary dividend in line with earnings through the cycle and selectively invest in bolt-on acquisitions that meet our investment criteria. Any surplus cash after meeting these investment needs has been returned to shareholders promptly and we have returned over $4 billion in share buy backs and special dividends over the past eight years.

Given the uncertainty of COVID-19 our strong balance sheet has been a source of great strength as we have guided the business through the early challenges of the pandemic. Initially we took prompt actions to optimize cash flow, reducing capital expenditure and operating costs, and further improve our liquidity position. This included suspending the $500 million share buy back announced on February 4, 2020, pausing M&A activity, and after careful consideration withdrawal of the interim dividend due for payment in April 2020.

However, we stated at the time that the Board recognized the importance of dividends to shareholders and, as such, intended to consider the appropriateness, quantum and timing of future dividends when the Board had a clearer view of the effects of COVID-19 on the Group's business. Taking into account the Group's prospects and financial position; the Board has decided to propose a final dividend for the year ended July 31, 2020 of 208.2 cents which effectively reinstates the previously withdrawn interim dividend and is in line with last year's total dividend (2018/19: 208.2 cents per share). The dividend will be paid on December 11, 2020 to shareholders on the register on November 13, 2020. Dividend payments in 2020/21 will revert back to the normal one third: two thirds split between an interim and final dividend. The Group's dividend policy remains unchanged.

We now intend to resume our focused M&A program, funding selective bolt-on acquisitions to improve our market leadership positions or expand the capabilities of our existing business models.

While Ferguson remains in a strong financial position, in the light of continued economic uncertainty the Board believes that it is appropriate to preserve prudent levels of funding and liquidity. As a result, the previously announced $500 million share buy back program remains suspended and will continue to be assessed as we gain further clarity on economic conditions. At the point at which the share buy back was suspended in April 2020 the Company had completed $101 million of the program.

Listing structure

During the year, the Board concluded that the US was the natural long-term listing location for Ferguson. It believes a US listing will provide the Company with access to significant incremental pools of capital in the largest domestic investment market in the world and is fully aligned with the long term strategy and focus for the business.

In February 2020 we announced a formal consultation with institutional shareholders on two potential listing structures which would aim to facilitate greater North American domestic investment in Ferguson. Following the consultation the Board, together with its advisers, carefully considered the feedback received and in July 2020 sought shareholder approval to implement an additional listing of ordinary shares in the US. At the same time the Board also set out that in due course its intention is to put forward a further resolution to Ferguson shareholders to relocate Ferguson's primary listing to the US.

Shareholders voted in favor of the additional listing resolution and it received over 99% support, significantly ahead of the required 75% threshold. The Company expects the new listing to become effective in the first half of calendar year 2021. We believe that this two-step process to transition to a full US primary listing provides an appropriate period during which some Ferguson shareholders that have mandates which may restrict their long term ownership in Ferguson could sell their holdings in an orderly manner.

The Board would like to thank shareholders for their feedback and support in this matter and in the coming years has no doubt that Ferguson will benefit from having direct access to this significant incremental pool of capital in the USA.

Board changes

In May, we announced that Mike Powell resigned as Group Chief Financial Officer ("CFO") in order to take up a role as Group CFO of Mondi Plc. Mike has played a critical role in the Company's transformation over the last three and a half years to focus the business on its attractive North American markets and the Board wishes him all the very best. Mike will step down from the Board and resign as an Executive Director on October 31, 2020.

We have today made a separate announcement that Bill Brundage CFO of Ferguson Enterprises will succeed Mike Powell as Group CFO on November 1, 2020. Bill has been the CFO of Ferguson Enterprises for the past 3 years.

Outlook

It is impossible to predict the future progress of the virus, or its economic impact and we expect the current levels of uncertainty to continue for the foreseeable future. However, the fundamental aspects of our business model remain attractive and since the start of the new financial year Ferguson has generated low single digit revenue growth in the US in flat markets overall. While we remain cautious on the outlook for the year as a whole, the business is in good shape and well prepared to address any further market related disruption.

Notes to statement

1. About Ferguson

Ferguson plc is a leading value added distributor of plumbing and heating products to professional contractors principally operating in North America. Ongoing revenue for the year ended July 31, 2020 was $19.9 billion and ongoing underlying trading profit was $1.6 billion. Ferguson plc is listed on the London Stock Exchange (LSE: FERG) and is in the FTSE 100 index of listed companies. For more information, please visit www.fergusonplc.com or follow us on Twitter https://twitter.com/Ferguson_plc.

2. Provisional financial calendar

Annual General Meeting	December 3, 2020

Other dates will be confirmed on the Company's website

3. Timetable for the final dividend

The timetable for payment of the proposed final dividend of 208.2 cents per share is as follows:

Ex-dividend date:	November 12, 2020
Record date:	November 13, 2020
Payment date:	December 11, 2020

The dividend is declared in US dollars and will be paid in sterling but shareholders can elect to receive the dividend in US dollars. A dividend reinvestment plan is in operation. Those shareholders who have not elected to receive dividends in US dollars or elected to participate in the dividend reinvestment plan, and who would like to make an election with respect to the 2020 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 November 27, 2020 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, and potential impacts of the COVID-19 pandemic on our business operations, financial results, financial position and on the global economy. 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 July 31, 2020

	Notes	2020 Before exceptional items $m	2020 Exceptional items (note 4) $m	2020 Total $m	2019 Before exceptional items $m	2019 Exceptional items (note 4) $m	2019 Total $m
Revenue	3	**21,819**	**–**	**21,819**	22,010	–	22,010
Cost of sales		**(15,395)**	**(3)**	**(15,398)**	(15,550)	(2)	(15,552)
Gross profit		**6,424**	**(3)**	**6,421**	6,460	(2)	6,458
Operating costs		**(4,882)**	**(117)**	**(4,999)**	(4,964)	(92)	(5,056)
Operating profit	3	**1,542**	**(120)**	**1,422**	1,496	(94)	1,402
Finance costs		**(151)**	**–**	**(151)**	(86)	–	(86)
Finance income		**7**	**–**	**7**	12	–	12
Share of (loss)/profit after tax of associates		**(2)**	**–**	**(2)**	2	–	2
Gain on disposal of interests in associates and other investments		**–**	**7**	**7**	–	3	3
Impairment of interests in associates		**(22)**	**–**	**(22)**	(9)	–	(9)
Profit before tax		**1,374**	**(113)**	**1,261**	1,415	(91)	1,324
Tax	5	**(330)**	**23**	**(307)**	(282)	19	(263)
Profit from continuing operations		**1,044**	**(90)**	**954**	1,133	(72)	1,061
Profit from discontinued operations		**5**	**2**	**7**	6	41	47
Profit for the year attributable to shareholders of the Company		**1,049**	**(88)**	**961**	1,139	(31)	1,108

	Notes	2020	2019
Earnings per share	7		
Continuing operations and discontinued operations			
Basic earnings per share		**427.5c**	481.3c
Diluted earnings per share		**423.5c**	477.8c
Continuing operations only			
Basic earnings per share		**424.4c**	460.9c
Diluted earnings per share		**420.4c**	457.5c

Alternative performance measures	Notes	2020	2019
Ongoing underlying trading profit	2	**1,595**	1,532
Non-ongoing underlying trading profit	2	**8**	74
Underlying trading profit	2, 3	**1,603**	1,606
Adjusted EBITDA from continuing operations	2	**1,797**	1,788
Headline earnings per share	2, 7	**511.6c**	517.4c

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

Group statement of comprehensive income

Year ended July 31, 2020

	Notes	2020 $m	2019 $m
Profit for the year		**961**	1,108
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange gain/(loss) on translation of overseas operations[1]		**57**	(86)
Exchange (loss)/gain on translation of borrowings and derivatives designated as hedges of overseas operations[1]		**(31)**	36
Cumulative currency translation differences on disposals[1]		**9**	1
Cumulative currency translation differences on disposal of interests in associates[1]		**–**	7
Items that will not be reclassified subsequently to profit or loss:			
Remeasurement of retirement benefit plans[2]		**(235)**	(36)
Tax credit on items that will not be reclassified to profit or loss[2]	5	**44**	6
Other comprehensive expense for the year		**(156)**	(72)
Total comprehensive income for the year		**805**	1,036
Total comprehensive income attributable to:			
Continuing operations		**787**	993
Discontinued operations		**18**	43
Total comprehensive income for the year attributable to shareholders of the Company		**805**	1,036

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

Group statement of changes in equity

Year ended July 31, 2020

	Notes	Share capital $m	Share premium $m	Translation reserve $m	Treasury shares $m	Own shares $m	Reserves Retained earnings $m	Non-controlling interest $m	Total equity $m
At July 31, 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	5	–	–	–	–	–	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	6	–	–	–	–	–	(449)	–	(449)
At July 31, 2019		**30**	**9**	**(598)**	**(305)**	**(102)**	**5,316**	**–**	**4,350**
Adjustment on adoption of IFRS 16	1	**–**	**–**	**–**	**–**	**–**	**(187)**	**–**	**(187)**
At August 1, 2019		**30**	**9**	**(598)**	**(305)**	**(102)**	**5,129**	**–**	**4,163**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**961**	**–**	**961**
Other comprehensive expense		**–**	**–**	**35**	**–**	**–**	**(191)**	**–**	**(156)**
Total comprehensive income		**–**	**–**	**35**	**–**	**–**	**770**	**–**	**805**
Purchase of own shares by Employee Benefit Trusts		**–**	**–**	**–**	**–**	**(26)**	**–**	**–**	**(26)**
Issue of own shares by Employee Benefit Trusts		**–**	**–**	**–**	**–**	**40**	**(40)**	**–**	**–**
Credit to equity for share-based payments		**–**	**–**	**–**	**–**	**–**	**26**	**–**	**26**
Tax relating to share-based payments	5	**–**	**–**	**–**	**–**	**–**	**11**	**–**	**11**
Purchase of Treasury shares		**–**	**–**	**–**	**(292)**	**–**	**–**	**–**	**(292)**
Disposal of Treasury shares		**–**	**–**	**–**	**27**	**–**	**(16)**	**–**	**11**
Dividends paid	6	**–**	**–**	**–**	**–**	**–**	**(327)**	**–**	**(327)**
At July 31, 2020		**30**	**9**	**(563)**	**(570)**	**(88)**	**5,553**	**–**	**4,371**

Group balance sheet
Year ended July 31, 2020

	Notes	2020 $m	2019 $m
Assets			
Non-current assets			
Intangible assets: goodwill	8	**1,721**	1,656
Intangible assets: other	8	**521**	423
Right of use assets	9	**1,111**	–
Property, plant and equipment	8	**1,389**	1,349
Interests in associates		**4**	29
Other financial assets		**12**	42
Retirement benefit assets		**–**	178
Deferred tax assets		**216**	164
Trade and other receivables		**377**	340
Derivative financial assets		**28**	10
		5,379	4,191
Current assets			
Inventories		**2,880**	2,821
Trade and other receivables		**3,042**	3,213
Current tax receivable		**–**	6
Other financial assets		**9**	9
Derivative financial assets		**11**	12
Cash and cash equivalents		**2,115**	1,133
		8,057	7,194
Assets held for sale		**20**	1
Total assets		**13,456**	11,386
Liabilities			
Current liabilities			
Trade and other payables		**3,591**	3,797
Current tax payable		**293**	251
Borrowings	10	**531**	52
Lease liabilities	9	**281**	–
Obligations under finance leases		**–**	2
Provisions		**53**	79
		4,749	4,181
Non-current liabilities			
Trade and other payables		**338**	292
Borrowings	10	**2,635**	2,292
Lease liabilities	9	**1,074**	–
Obligations under finance leases		**–**	4
Deferred tax liabilities		**26**	56
Provisions		**202**	186
Retirement benefit obligations		**61**	25
		4,336	2,855
Total liabilities		**9,085**	7,036
Net assets		**4,371**	4,350
Equity			
Share capital		**30**	30
Share premium		**9**	9
Reserves		**4,332**	4,311
Equity attributable to shareholders of the Company		**4,371**	4,350

Group cash flow statement

Year ended July 31, 2020

	Notes	2020 $m	2019 $m
Cash flows from operating activities			
Cash generated from operations	11	**2,252**	1,609
Interest received		**8**	13
Interest paid		**(167)**	(90)
Tax paid		**(225)**	(242)
Net cash generated from operating activities		**1,868**	1,290
Cash flows from investing activities			
Acquisition of businesses (net of cash acquired)	12	**(351)**	(657)
Disposals of businesses (net of cash disposed of)		**7**	201
Purchases of property, plant and equipment		**(215)**	(382)
Net proceeds from the disposal of property, plant and equipment, assets held for sale and right of use assets		**13**	84
Purchases of intangible assets		**(87)**	(36)
Acquisition of associates and other investments		**(5)**	(11)
Disposal of interests in associates and other investments		**32**	18
Net cash used in investing activities		**(606)**	(783)
Cash flows from financing activities			
Proceeds from the issue of shares		**–**	9
Purchase of own shares by Employee Benefit Trusts		**(26)**	(38)
Purchase of Treasury shares		**(451)**	(150)
Proceeds from the sale of Treasury shares		**11**	3
Proceeds from loans and derivatives	13	**1,169**	757
Repayments of loans	13	**(566)**	(2)
Lease liability capital payments	13	**(295)**	–
Finance lease capital payments	13	**–**	(3)
Dividends paid to shareholders		**(327)**	(445)
Net cash (used in)/generated from financing activities		**(485)**	131
Net cash generated		**777**	638
Cash, cash equivalents and bank overdrafts at the beginning of the year	13	**1,086**	458
Effects of exchange rate changes		**4**	(10)
Cash, cash equivalents and bank overdrafts at the end of the year	13	**1,867**	1,086

Notes to the full year results announcement

Year ended July 31, 2020

1 – Basis of preparation

The full year results announcement for the year ended July 31, 2020, 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 Group's principal objective when managing cash and debt is to safeguard the Group's ability to continue as a going concern for the foreseeable future. The Group retains sufficient resources to remain in compliance with all the required terms and conditions within its borrowing facilities with material headroom and no material uncertainties have been identified. Whilst there remains significant uncertainty as to the future impact of the COVID-19 pandemic, the Group continues to conduct ongoing risk assessments of the potential impact of the pandemic on its business operations and liquidity. The Group has also taken steps to enhance its operational resilience and position the business for the current operating environment. Consideration has also been given to reverse stress tests, which seek to identify factors that might cause the Group to require further liquidity, and a view can be formed of the probability of those occurring. Having assessed the relevant business risks, including the impact of COVID-19, and considered the headroom available under several alternative scenarios including a severe short term revenue reduction and taking into account reasonable mitigating actions, the Directors consider it appropriate to continue to adopt the going concern basis in preparing the full year results announcement.

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 in the full year results announcement for the year ended July 31, 2020 does not constitute the statutory financial statements of the Group. The statutory financial statements for the year ended July 31, 2019 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 July 31, 2020 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 August 1, 2019, the Group adopted IFRS 16 "Leases". The standard makes changes to the treatment of leases in the financial statements, requiring the use of a single model to recognize a lease liability and a right of use asset for all leases, including those classified as operating under IAS 17 "Leases", unless the underlying asset has a low value or the lease term is 12 months or less. Rental charges in the income statement previously recorded under IAS 17 are replaced with depreciation and interest charges under IFRS 16 and right of use assets are subject to impairment reviews in accordance with IAS 36 "Impairment of Assets" replacing the previous requirement to recognize a provision for onerous lease contracts.

The Group has applied the modified retrospective transition method and has not restated comparatives for the year ended July 31, 2019. For the majority of leases, the right of use asset on transition has been measured as if IFRS 16 had been applied since the commencement of the lease, discounted using the Group's incremental borrowing rate as at August 1, 2019, with the difference between the right of use asset and the lease liability taken to retained earnings. For the remaining leases which relate to the Group's US fleet, where sufficient historic information has not been available, the right of use asset has been measured as equal to the lease liability on transition. The US fleet represented $252 million of the lease liability on transition.

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

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

The impact of the adoption of IFRS 16 on the income statement in the year ended July 31, 2020 was to decrease rental costs by $337 million, increase depreciation by $268 million and increase finance costs by $53 million. The impact on the cash flow statement was to increase cash generated from operations by $348 million, increase interest paid by $53 million and increase lease liability capital payments by $295 million. There was no impact on the net increase in cash, cash equivalents and bank overdrafts.

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

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

1 – Basis of preparation continued

Accounting developments and changes continued

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

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

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

The following other standards and amendments to existing standards became effective for the year ending July 31, 2020 and have not had a material impact on the Group's consolidated financial statements:

— IFRIC 23 "Uncertainty over Income Tax Treatments";
— Amendments to IFRS 9 – Prepayment Features with Negative Compensation;
— Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures;
— Annual Improvements to IFRSs 2015-2017 Cycle; and
— Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement.

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 excluding businesses that have been disposed of, closed or classified as held for sale or the Group is committed to exiting 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 or the Group is committed to exiting. In 2020, the Group's UK business has been classified as non-ongoing and all comparatives have been restated for consistency and comparability. In 2019, the Group's Dutch business Wasco and UK business soak.com were also included in non-ongoing.

Ongoing operations are continuing operations excluding non-ongoing operations.

Organic revenue growth

Management uses organic revenue growth as it provides a consistent measure of the percentage increase/decrease in revenue year-on-year, excluding the effect of currency exchange rate fluctuations, trading days, acquisitions and disposals. Organic revenue growth is determined as the growth in total reported revenue excluding the growth/decline attributable to acquisitions, disposals, trading days and currency exchange rate fluctuations, divided by the preceding financial year's revenue at the current year's exchange rates.

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

	Ongoing		Non-ongoing	Continuing
Revenue	$m	% growth	$m	$m
Reported 2019 restated	**19,549**		**2,461**	**22,010**
Impact of exchange rate movements	**(20)**	**(0.1)**	**(51)**	**(71)**
Reported 2019 at 2020 exchange rates	**19,529**		**2,410**	**21,939**
Organic growth	**(26)**	**(0.1)**	**(348)**	**(374)**
Trading days	**81**	**0.4**	**11**	**92**
Acquisitions	**356**	**1.8**	**39**	**395**
Disposals	**–**	**–**	**(233)**	**(233)**
Reported 2020	**19,940**	**2.0**	**1,879**	**21,819**

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, and the impact of fluctuations in foreign currency exchange rates in relation to pension assets or liabilities held in currencies which are different to that of the functional currency of the entity. These are considered exceptional by nature; 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 4.

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 segment performance and it is a key performance indicator for the Group. A reconciliation of ongoing gross margin is provided below:

	2020			Restated 2019		
	Gross profit $m	**Revenue $m**	**Ongoing gross margin %**	Gross profit $m	Revenue $m	Ongoing gross margin %
Continuing	**6,421**	**21,819**		6,458	22,010	
Non-ongoing	**(441)**	**(1,879)**		(590)	(2,461)	
Exceptional items	**3**	**–**		2	–	
Ongoing	**5,983**	**19,940**	**30.0**	5,870	19,549	30.0

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

Trading profit is defined as operating profit before exceptional items and the amortization 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. Underlying trading profit is defined as trading profit excluding the impact of IFRS 16.

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

Underlying trading profit and ongoing underlying trading margin are presented to allow better comparison between the year ended July 31, 2020 prepared under IFRS 16 and the year ended July 31, 2019 prepared under IAS 17.

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

	2020				Restated 2019		
	Ongoing		**Non-ongoing**	**Continuing**	Ongoing	Non-ongoing	Continuing
	$m	**growth %**	**$m**	**$m**	$m	$m	$m
Trading profit 2019	**1,532**		**74**	**1,606**	1,422	85	1,507
Impact of exchange rate movements	**–**		**(1)**	**(1)**	(1)	(5)	(6)
Trading profit 2019 at 2020 exchange rates	**1,532**		**73**	**1,605**	1,421	80	1,501
Growth at constant exchange rates	**63**	**4.1**	**(65)**	**(2)**	111	(6)	105
Underlying trading profit	**1,595**		**8**	**1,603**	1,532	74	1,606
Impact of IFRS 16	**68**		**1**	**69**	–	–	–
Trading profit	**1,663**		**9**	**1,672**	1,532	74	1,606
Exceptional items	**(99)**		**(21)**	**(120)**	(117)	23	(94)
Amortization of acquired intangible assets	**(114)**		**(16)**	**(130)**	(109)	(1)	(110)
Operating profit	**1,450**		**(28)**	**1,422**	1,306	96	1,402

Revenue, trading profit/underlying trading profit and trading margin/underlying trading margin are reconciled below:

	Revenue		**Trading profit**	**Impact of IFRS 16**	**Underlying trading profit**	**Trading profit**	**Trading margin**	**Underlying trading margin**	**Trading margin**
	2020 $m	Restated 2019 $m	**2020 $m**	**2020 $m**	**2020 $m**	Restated 2019 $m	**2020 %**	**2020 %**	Restated 2019 %
USA	**18,857**	18,358	**1,654**	**(67)**	**1,587**	1,508	**8.8**	**8.4**	8.2
Canada and Central Europe	**1,083**	1,191	**44**	**(1)**	**43**	67	**4.1**	**4.0**	5.6
Central and other costs	**–**	–	**(35)**	**–**	**(35)**	(43)	**–**	**–**	–
Total ongoing operations	**19,940**	19,549	**1,663**	**(68)**	**1,595**	1,532	**8.3**	**8.0**	7.8
UK	**1,879**	2,222	**9**	**(1)**	**8**	69	**0.5**	**0.4**	3.1
Soak.com	**–**	59	**–**	**–**	**–**	(4)	**–**	**–**	(6.8)
Canada and Central Europe	**–**	180	**–**	**–**	**–**	9	**–**	**–**	5.0
Total non-ongoing operations	**1,879**	2,461	**9**	**(1)**	**8**	74	**0.5**	**0.4**	3.0
Continuing operations	**21,819**	22,010	**1,672**	**(69)**	**1,603**	1,606	**7.7**	**7.3**	7.3

2 – Alternative performance measures continued

Adjusted EBITDA

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

			2020			2019
	Continuing $m	**Discontinued $m**	**Group $m**	Continuing $m	Discontinued $m	Group $m
Operating profit	**1,422**	**7**	**1,429**	1,402	47	1,449
Exceptional items	**120**	**(2)**	**118**	94	(42)	52
Amortization of acquired intangible assets	**130**	**–**	**130**	110	–	110
Trading profit	**1,672**	**5**	**1,677**	1,606	5	1,611
Impact of IFRS 16	**(69)**	**–**	**(69)**	–	–	–
Underlying trading profit	**1,603**	**5**	**1,608**	1,606	5	1,611
Depreciation and impairment of property, plant and equipment	**159**	**–**	**159**	147	–	147
Amortization of non-acquired intangible assets	**35**	**–**	**35**	31	–	31
Impairment of assets held for sale	**–**	**–**	**–**	4	–	4
Adjusted EBITDA	**1,797**	**5**	**1,802**	1,788	5	1,793

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 5.

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 amortization 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 amortization 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 7.

Net debt

Net debt excluding lease liabilities comprises cash and cash equivalents, bank overdrafts, bank and other loans, derivative financial instruments and in the prior year obligations under finance leases under IAS 17. The Group uses net debt excluding lease liabilities, which excludes lease liabilities under IFRS 16, to be consistent with adjusted EBITDA in line with the requirements of the Group's debt covenants. For this reason the Group uses the term net debt to refer to net debt excluding lease liabilities unless otherwise stated. Net debt is a good indicator of the strength of the Group's balance sheet position and is used by the Group's debt providers. See note 13 for a reconciliation.

Return on gross capital employed

Return on gross capital employed is the ratio of the Group's trading profit to the average year-end shareholders' equity, net debt, lease liabilities and accumulated amortization and impairment of goodwill and acquired intangible assets. Return on gross capital employed is a key performance indicator. The calculation of return on gross capital employed is shown below:

	2020 $m	2019 $m
Net debt excluding lease liabilities (note 13)	**1,012**	1,195
Lease liabilities (note 13)	**1,355**	–
Accumulated impairment losses of goodwill	**140**	133
Accumulated amortization and impairment losses of acquired intangible assets[1]	**811**	677
Shareholders' equity	**4,371**	4,350
Gross capital employed	**7,689**	6,355
Average gross capital employed[2]	**7,022**	6,138
Group trading profit[3]	**1,677**	1,611
Return on gross capital employed %	**23.9**	26.2

1. Excludes software.
2. Gross capital employed in 2018 was $5,921 million.
3. Reconciliation provided under adjusted EBITDA.

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, which is determined to be the Group Chief Executive Officer and the Group Chief Financial Officer, 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. In 2019, the Group disposed of its Dutch business, Wasco, which was the last of its Central European businesses.

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 July 31, 2019 and July 31, 2020 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:

	2019 $m	Exchange $m	Disposals $m	Acquisitions $m	Trading days $m	Organic change $m	**2020 $m**
USA	18,358	–	–	355	76	68	**18,857**
UK	2,281	(46)	(58)	39	11	(348)	**1,879**
Canada and Central Europe	1,371	(25)	(175)	1	5	(94)	**1,083**
Continuing operations	22,010	(71)	(233)	395	92	(374)	**21,819**

An additional disaggregation of revenue by end market for continuing operations is as follows:

	2020 $m	2019 $m
Residential	**10,087**	9,599
Commercial	**6,116**	6,054
Civil/Infrastructure	**1,315**	1,212
Industrial	**1,339**	1,493
USA	**18,857**	18,358
UK	**1,879**	2,281
Canada and Central Europe	**1,083**	1,371
Continuing operations	**21,819**	22,010

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

	2019 $m	Exchange $m	Disposals $m	Acquisitions $m	Trading days $m	Organic change $m	**2020 $m**
USA	1,508	–	–	16	16	47	**1,587**
UK	65	(1)	3	6	1	(66)	**8**
Canada and Central Europe	76	(1)	(8)	–	1	(25)	**43**
Total reportable segments	1,649	(2)	(5)	22	18	(44)	**1,638**
Central and other costs	(43)	1	–	–	–	7	**(35)**
Continuing operations	1,606	(1)	(5)	22	18	(37)	**1,603**

3 – Segmental analysis continued

Underlying trading profit/(loss) (note 2) is the Group's measure of segment performance in 2020 and is comparable to trading profit/(loss) (note 2) in 2019. Trading profit/(loss) was the Group's segment measure of performance in 2019 and prior years, before the adoption of IFRS 16. The reconciliation between underlying trading profit/(loss) by reportable segment and Group profit before tax for continuing operations is as follows:

	2020						2019			
	Underlying trading profit/ (loss) $m	**Impact of IFRS 16 $m**	**Trading profit/ (loss) $m**	**Exceptional items $m**	**Amortization of acquired intangible assets $m**	**Operating profit/(loss) $m**	Trading profit/(loss) $m	Exceptional items $m	Amortization of acquired intangible assets $m	Operating profit/(loss) $m
USA	**1,587**	**67**	**1,654**	**(65)**	**(113)**	**1,476**	1,508	(63)	(102)	1,343
UK	**8**	**1**	**9**	**(21)**	**(16)**	**(28)**	65	(54)	–	11
Canada and Central Europe	**43**	**1**	**44**	**(7)**	**(1)**	**36**	76	34	(8)	102
Total reportable segments	**1,638**	**69**	**1,707**	**(93)**	**(130)**	**1,484**	1,649	(83)	(110)	1,456
Central and other costs	**(35)**	**–**	**(35)**	**(27)**	**–**	**(62)**	(43)	(11)	–	(54)
Group	**1,603**	**69**	**1,672**	**(120)**	**(130)**	**1,422**	1,606	(94)	(110)	1,402
Net finance costs						**(144)**				(74)
Share of (loss)/profit after tax of associates						**(2)**				2
Gain on disposal of interests in associates and other investments						**7**				3
Impairment of interests in associates						**(22)**				(9)
Profit before tax						**1,261**				1,324

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

	2020			2019		
	Segment assets[1] $m	**Segment liabilities[1] $m**	**Segment net assets/ (liabilities) $m**	Segment assets $m	Segment liabilities $m	Segment net assets/ (liabilities) $m
USA	**9,338**	**(4,402)**	**4,936**	8,252	(3,243)	5,009
UK	**1,093**	**(742)**	**351**	1,144	(553)	591
Canada and Central Europe	**603**	**(315)**	**288**	564	(267)	297
Total reportable segments	**11,034**	**(5,459)**	**5,575**	9,960	(4,063)	5,897
Central and other costs	**49**	**(132)**	**(83)**	97	(282)	(185)
Discontinued	**3**	**(9)**	**(6)**	4	(34)	(30)
Tax assets/(liabilities)	**216**	**(319)**	**(103)**	170	(307)	(137)
Net cash/(debt)	**2,154**	**(3,166)**	**(1,012)**	1,155	(2,350)	(1,195)
Group assets/(liabilities)	**13,456**	**(9,085)**	**4,371**	11,386	(7,036)	4,350

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

3 – Segmental analysis continued

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

	2020 $m	2019 $m
USA	**4,134**	3,036
UK	**357**	225
Canada and Central Europe	**255**	196
Group	**4,746**	3,457

	2020					2019			
	Additions to goodwill $m	**Additions to other acquired intangible assets and interests in associates $m**	**Additions to non-acquired intangible assets $m**	**Additions to right of use 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	**66**	**107**	**79**	**86**	**199**	258	224	26	327
UK	**12**	**31**	**5**	**19**	**13**	–	–	8	33
Canada and Central Europe	**–**	**–**	**3**	**10**	**2**	1	–	2	11
Total reportable segments	**78**	**138**	**87**	**115**	**214**	259	224	36	371
Central and other costs	**–**	**–**	**–**	**–**	**–**	–	–	–	3
Group	**78**	**138**	**87**	**115**	**214**	259	224	36	374

	2020					2019			
	Impairment of goodwill, other acquired intangible assets and interests in associates $m	**Amortization of other acquired intangible assets $m**	**Amortization and impairment of non-acquired intangible assets $m**	**Depreciation and impairment of right of use assets $m**	**Depreciation and impairment of property, plant and equipment $m**	Impairment of goodwill, other acquired intangible assets and interests in associates $m	Amortization of other acquired intangible assets $m	Amortization and impairment of non-acquired intangible assets $m	Depreciation and impairment of property, plant and equipment $m
USA	**–**	**113**	**26**	**226**	**131**	–	102	20	118
UK	**–**	**16**	**6**	**37**	**20**	–	–	8	21
Canada and Central Europe	**–**	**1**	**2**	**14**	**7**	–	8	2	8
Total reportable segments	**–**	**130**	**34**	**277**	**158**	–	110	30	147
Central and other costs	**22**	**–**	**1**	**1**	**1**	9	–	1	–
Group	**22**	**130**	**35**	**278**	**159**	9	110	31	147

4 – Exceptional items

Exceptional items credited/(charged) to profit before tax from continuing operations are analyzed by purpose as follows:

	2020 $m	2019 $m
(Loss)/gain on disposal of businesses	**(3)**	23
Business restructuring	**(93)**	(108)
Other exceptional items	**(24)**	(9)
Total included in operating profit	**(120)**	(94)
Gain on disposal of interests in associates and other investments	**7**	3
Total included in profit before tax	**(113)**	(91)

For the year ended July 31, 2020, business restructuring principally comprises costs incurred in the USA, UK and Canada in respect of cost actions taken to ensure the business is appropriately sized for the post COVID-19 operating environment.

Other exceptional items principally relate to the proposed separation of the UK business and the Group's planned listing in the USA.

The gain on disposal of interests in associates and other investments relates to the sale of the Group's investment in Meier Tobler AG.

During the year, the cash flows relating to exceptional items were $113 million (2019: $53 million) used in respect of operating activities and $41 million (2019: $169 million) generated in respect of investing activities.

5 – Tax

The tax charge for the year comprises:

	2020 $m	2019 $m
Current year tax charge	**294**	306
Adjustments to tax charge in respect of prior years	**(16)**	4
Total current tax charge	**278**	310
Deferred tax charge/(credit): origination and reversal of temporary differences	**29**	(47)
Total tax charge	**307**	263

An exceptional tax credit of $23 million (2019: $19 million) was recorded against exceptional items. The deferred tax charge of $29 million (2019: credit of $47 million) includes a credit of $6 million (2019: charge of $3 million) resulting from changes in tax rates. A tax charge of $nil (2019: $4 million charge) arises on the profit from discontinued operations. Of this charge $nil (2019: $4 million) relates to exceptional items.

Tax on items charged to the Group statement of comprehensive income:

	2020 $m	2019 $m
Deferred tax credit on remeasurement of retirement benefit plans	**44**	6
Total tax on items credited to the Group statement of comprehensive income	**44**	6

Tax on items credited to equity:

	2020 $m	2019 $m
Current tax credit on share-based payments	**6**	5
Deferred tax credit on share-based payments	**5**	1
Total tax on items credited to equity	**11**	6

There is no tax charge in the statement of changes in equity which relates to changes in tax rates in the current or prior year.

The Group has made provisions for the liabilities likely to arise from open audits and assessments. At July 31, 2020, the Group has recognized provisions of $294 million (2019: $254 million) in respect of its uncertain tax positions. The total provision has increased by $40 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.

5 – Tax continued

2020

Tax reconciliation:	Ongoing profit/tax[7] $m	Ongoing profit/tax[7] %	Non-ongoing and other profit/tax[8] $m	Non-ongoing and other profit/tax[8] %	Total profit/tax from continuing operations $m	Total profit/tax from continuing operations %
Profit before tax	**1,512**		**(251)**		**1,261**	
Expected tax at weighted average tax rate[1]	**(327)**	**21.6**	**61**	**(24.3)**	**(266)**	**21.1**
Adjusted for the effects of:						
(under)/over provisions in respect of prior periods[2]	**(9)**	**0.6**	**11**	**(4.4)**	**2**	**(0.2)**
exceptional items which are non-tax deductible[3]	**–**	**–**	**1**	**(0.4)**	**1**	**(0.1)**
current year charge in relation to uncertain tax provisions[4]	**(33)**	**2.2**	**–**	**–**	**(33)**	**2.6**
tax credits and incentives	**6**	**(0.4)**	**–**	**–**	**6**	**(0.5)**
non-taxable income	**8**	**(0.5)**	**–**	**–**	**8**	**(0.6)**
other non-tax deductible expenditure[5]	**(20)**	**1.3**	**(4)**	**1.6**	**(24)**	**1.9**
other	**(1)**	**0.1**	**(6)**	**2.4**	**(7)**	**0.6**
effect of tax rate changes[6]	**–**	**–**	**6**	**(2.4)**	**6**	**(0.5)**
Tax (charge)/credit / effective tax rate	**(376)**	**24.9**	**69**	**(27.5)**	**(307)**	**24.3**

Restated 2019

Tax reconciliation:	Ongoing profit/tax[7] $m	Ongoing profit/tax[7] %	Non-ongoing and other profit/tax[8] $m	Non-ongoing and other profit/tax[8] %	Total profit/tax from continuing operations $m	Total profit/tax from continuing operations %
Profit before tax	1,456		(132)		1,324	
Expected tax at weighted average tax rate[1]	(289)	19.8	69	(52.3)	(220)	16.6
Adjusted for the effects of:						
over provisions in respect of prior periods[2]	(7)	0.5	9	(6.8)	2	(0.1)
exceptional items which are non-tax deductible[3]	–	–	(7)	5.3	(7)	0.6
current year charge in relation to uncertain tax provisions[4]	(35)	2.5	–	–	(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]	(11)	0.8	(5)	3.8	(16)	1.2
recognition of previously unrecognised deferred tax asset	–	–	11	(8.3)	11	(0.8)
other	(2)	0.1	–	–	(2)	0.1
effect of tax rate changes	(2)	0.1	(1)	0.7	(3)	0.2
Tax (charge)/credit / effective tax rate	(339)	23.3	76	(57.6)	(263)	19.9

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 25.6 per cent (2019 restated: 26.8 per cent) and this is reduced to a post intra-group financing ongoing expected weighted average tax rate of 21.6 per cent (2019 restated: 19.8 per cent) following intra-group financing. The 1.8 per cent increase in the post intra-group financing ongoing expected weighted average tax rate is primarily due to tax reform.
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 change of the deferred tax rate to 19 per cent from the previously enacted 17 per cent in the UK.
7. Ongoing profit means profit before tax, exceptional items, the amortization 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 amortization 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 2020, the non-ongoing and other credit of $69 million relates primarily to exceptional restructuring costs, tax deductable amortization in relation to intangible assets, non-taxable disposal of businesses and the amortization of loan premium.

6 – Dividends

Amounts recognized as distributions to equity shareholders:

	2020 $m	2019 $m
Final dividend for the year ended July 31, 2018: 131.9 cents per share	–	303
Interim dividend for the year ended July 31, 2019: 63.1 cents per share	–	146
Final dividend for the year ended July 31, 2019: 145.1 cents per share	327	–
Interim dividend for the year ended July 31, 2020: nil	–	–
Dividends paid	327	449

After careful consideration, the Board decided to withdraw the interim dividend for the year ended July 31, 2020 which was due for payment on April 30, 2020 due to the significant uncertainty around the impact and duration of the COVID-19 disruption.

Since the end of the financial year, the Directors have proposed a final ordinary dividend of $466 million (208.2 cents per share) which effectively reinstates the previously withdrawn interim dividend. 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 July 31, 2020.

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

7 – Earnings per share

	2020			2019		
	Earnings $m	Basic earnings per share cents	Diluted earnings per share cents	Earnings $m	Basic earnings per share cents	Diluted earnings per share cents
Profit from continuing and discontinued operations attributable to shareholders of the Company	961	427.5	423.5	1,108	481.3	477.8
Profit from discontinued operations	(7)	(3.1)	(3.1)	(47)	(20.4)	(20.3)
Profit from continuing operations	954	424.4	420.4	1,061	460.9	457.5
Non-recurring tax credit relating to changes in tax rates and other adjustments	(13)	(5.7)		(33)	(14.3)	
Amortization and impairment of acquired intangible assets and impairment of interests in associates (net of tax)	119	52.9		91	39.5	
Exceptional items (net of tax)	90	40.0		72	31.3	
Headline profit after tax from continuing operations	1,150	511.6		1,191	517.4	

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 224.8 million (2019: 230.2 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 226.9 million (2019: 231.9 million).

8 – 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 July 31, 2019	1,656	356	67	423	1,349	3,428
Adjustment on adoption of IFRS 16	–	–	–	–	(6)	(6)
Net book value at August 1, 2019	1,656	356	67	423	1,343	3,422
Additions	–	–	87	87	214	301
Acquisitions	78	138	13	151	19	248
Adjustment to fair value on prior year acquisitions	(14)	15	–	15	–	1
Disposals and transfers	–	–	6	6	(13)	(7)
Depreciation and amortization	–	(130)	(35)	(165)	(154)	(319)
Impairment	–	–	–	–	(5)	(5)
Reclassification as held for sale	–	–	–	–	(24)	(24)
Exchange rate adjustment	1	1	3	4	9	14
Net book value at July 31, 2020	**1,721**	**380**	**141**	**521**	**1,389**	**3,631**

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 July 31, 2020.

	2020 Long-term growth rate %	2020 Post-tax discount rate %	2020 Pre-tax discount rate %	2020 Goodwill $m	2019 Long-term growth rate %	2019 Post-tax discount rate %	2019 Pre-tax discount rate %	2019 Goodwill $m
Blended Branches[1]				**991**				973
Waterworks				**183**				188
Rest of USA[1]				**353**				314
USA	**2.2**	**8.1**	**10.8**	**1,527**	2.2	9.3	12.6	1,475
UK	**1.5**	**7.7**	**9.4**	**55**	2.0	8.0	9.8	39
Canada	**1.3**	**7.8**	**10.8**	**139**	2.0	8.5	11.6	142
Total				**1,721**				1,656

1. Due to a reorganization of the reporting structure, a component of the eBusiness CGU has been reallocated to the Blended Branches CGU. As a result, the eBusiness CGU is no longer considered to be significant and is not disclosed separately. The comparative has been reclassified for comparability.

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 reflecting the latest equity market risk factors; and the 30-year long-term growth rate by country, as published by the IMF in April 2020.

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. The most recent strategic plans were approved by the Board in July 2020. The plans take into account the impact of COVID-19 on recent trading and reflect the Board's latest expectations of future trading activity in a post COVID-19 environment.

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 analysis included an assessment of the break-even point for each of the key assumptions and the break-even point was considered for reasonableness in light of the recent impact of COVID-19 on the trading activities of the business. 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. As a result, management do not believe that the key impairment review assumptions 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 assumptions within the next 12 months.

9 – Leases

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

	Land and buildings $m	Plant and machinery $m	Total right of use assets $m
Net book value at July 31, 2019	–	–	–
Adjustment on adoption of IFRS 16	**940**	**280**	**1,220**
Net book value at August 1, 2019	**940**	**280**	**1,220**
Acquisitions	**28**	**2**	**30**
Additions	**54**	**61**	**115**
Disposals and remeasurements	**19**	**(3)**	**16**
Depreciation charge for the year	**(191)**	**(77)**	**(268)**
Impairment charge for the year	**(9)**	**(1)**	**(10)**
Exchange rate adjustment	**8**	–	**8**
Net book value at July 31, 2020	**849**	**262**	**1,111**

The Group's land and building leases include leases for branches, distribution centres and offices. Leases in the USA and Canada often include one or more options to extend the lease term and some of the Group's leases include options to terminate early. Certain leases include variable lease payments that are linked to a consumer price index or market rate. The Group's land and building leases have a weighted average remaining lease term at July 31, 2020 of 5.9%.

The Group's plant and machinery leases include leases for fleet vehicles, trucks and company cars. These leases have a weighted average remaining lease term at July 31, 2020 of 4.5%.

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

	2020 $m
Due in less than one year	**325**
Due in one to two years	**326**
Due in two to three years	**282**
Due in three to four years	**211**
Due in four to five years	**146**
Due in over five years	**218**
Total undiscounted lease payments	**1,508**
Effect of discounting	**(153)**
Lease liabilities	**1,355**

Current lease liabilities	**281**
Non-current lease liabilities	**1,074**
Lease liabilities	**1,355**

At July 31, 2020 the Group was committed to future undiscounted lease payments of $nil relating to short term leases.

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

	2020 $m
Depreciation of right of use assets	**268**
Impairment of right of use assets	**10**
Short-term lease expense	**15**
Low-value lease expense	**16**
Sublease income	**(2)**
Charged to operating costs	**307**
Charged to finance costs	**53**
Total amount charged to the Group income statement	**360**

9 – Leases continued

Operating lease commitments under IAS 17

Future minimum lease payments under non-cancellable leases for the year ended July 31, 2019 were as follows:

	2019 $m
Less than one year	342
After one year and less than five years	631
After five years	153
Total operating lease commitments	1,126

10 – Borrowings

			2020			2019
	Current $m	**Non-current $m**	**Total $m**	Current $m	Non-current $m	Total $m
Bank overdrafts	**248**	**–**	**248**	47	–	47
Senior unsecured loan notes	**283**	**2,635**	**2,918**	5	2,292	2,297
Total borrowings	**531**	**2,635**	**3,166**	52	2,292	2,344

In June 2020, the Group successfully issued $600 million of 10-year 3.25% notes maturing in June 2030 in the USA bond market. At July 31, 2020 total USA bond debt was $1,350 million (2019: $750 million) which is held at par value.

The carrying value of the USPP senior unsecured loan notes of $1,568 million comprises a par value of $1,530 million and a fair value adjustment of $38 million (2019: $1,547 million, $1,530 million and $17 million respectively).

The Group applies fair value hedge accounting to debt of $355 million (2019: $355 million), swapping fixed interest rates into floating interest rates using a series of interest rate swaps.

Included in bank overdrafts at July 31, 2020 is an amount of $248 million (2019: $18 million) which is part of the Group's cash pooling arrangements where there is an equal and opposite balance included within cash and cash equivalents. These amounts are subject to a master netting arrangement.

In April 2020, Ferguson Finance Plc was approved as an eligible issuer under the Covid Corporate Financing Facility (CCFF), all commercial paper issued under the CCFF was fully repaid in June 2020 and as a result there are no balances recognized in the financial statements at the balance sheet date. The Group did not utilize the funds that were previously drawn down under the facility and Ferguson Finance Plc's CCFF eligibility expires in October 2020. There are no unfulfilled conditions or contingencies associated with the facility.

No bank loans were secured against trade receivables and the trade receivables facility of $600 million was undrawn at July 31, 2020 and July 31, 2019.

There have been no significant changes during the year to the Group's policies on accounting for, valuing and managing the risk of financial instruments.

Non-current loans are repayable as follows:

	2020 $m	2019 $m
Due in one to two years	**–**	282
Due in two to three years	**250**	–
Due in three to four years	**150**	250
Due in four to five years	**150**	150
Due in over five years	**2,085**	1,610
Total	**2,635**	2,292

11 – Reconciliation of profit to cash generated from operations

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

	2020 $m	2019 $m
Profit for the year attributable to shareholders	**961**	1,108
Net finance costs	**144**	70
Share of loss/(profit) after tax of associates	**2**	(2)
Gain on disposal of interests in associates and other investments	**(7)**	(3)
Impairment of interests in associates	**22**	9
Tax charge	**307**	267
Loss/(gain) on disposal and closure of businesses and revaluation of assets held for sale	**3**	(53)
Amortization of acquired intangible assets	**130**	110
Amortization of non-acquired intangible assets	**35**	31
Depreciation and impairment of right of use assets	**278**	–
Depreciation and impairment of property, plant and equipment	**159**	147
Gain on disposal of property, plant and equipment, assets held for sale and right of use assets	**(3)**	(7)
Decrease/(increase) in inventories	**19**	(172)
Decrease/(increase) in trade and other receivables	**210**	(132)
(Decrease)/increase in trade and other payables	**(9)**	227
Decrease in provisions and other liabilities	**(25)**	(25)
Share-based payments	**26**	34
Cash generated from operations	**2,252**	1,609

12 – Acquisitions

The Group acquired the following businesses during the year ended July 31, 2020, which are all engaged in the distribution of plumbing and heating products and were acquired to support growth in the USA and UK. All transactions have been accounted for by the acquisition method of accounting.

Name	**Date of acquisition**	**Country of incorporation**	**Shares/asset deal**	**Acquired %**
Continental Product Engineering Ltd	August 2019	UK	Shares	100
Process Instruments & Controls, LLC	September 2019	USA	Assets	100
S. W. Anderson Sales Corporation	November 2019	USA	Shares	100
Columbia Pipe & Supply Co	March 2020	USA	Shares	100
Rencor Controls, Inc	March 2020	USA	Assets	100
MFP Design, LLC	March 2020	USA	Assets	100

12 – Acquisitions continued

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

	2020 $m	2019 $m
Intangible assets		
Software	**13**	–
Trade names and brands	**34**	19
Customer relationships	**101**	202
Other	**3**	3
Right of use assets	**30**	–
Property, plant and equipment	**19**	95
Inventories	**58**	122
Trade and other receivables	**62**	93
Cash, cash equivalents and bank overdrafts	**6**	11
Obligations under finance leases	**–**	(3)
Lease liabilities	**(30)**	–
Trade and other payables	**(28)**	(71)
Deferred tax	**(11)**	(33)
Provisions	**(2)**	(2)
Total	**255**	436
Goodwill arising	**78**	259
Consideration	**333**	695

Satisfied by:		
Cash	**321**	656
Deferred consideration	**12**	39
Total consideration	**333**	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 judgmental 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 $185 million to revenue, $15 million to trading profit, $17 million loss to the Group's operating profit, $24 million loss to the Group's profit before tax and $18 million loss to the Group's profit after tax for the period between the date of acquisition and the balance sheet date.

If each acquisition had been completed on the first day of the financial year, continuing revenue would have been $21,993 million, continuing trading profit would have been $1,686 million, continuing operating profit would have been $1,419 million, continuing profit before tax would have been $1,253 million and continuing profit after tax would have been $949 million.

The net outflow of cash in respect of the purchase of businesses is as follows:

	2020 $m	2019 $m
Purchase consideration	**321**	656
Deferred and contingent consideration in respect of prior year acquisitions	**36**	12
Cash consideration	**357**	668
Cash, cash equivalents and bank overdrafts acquired	**(6)**	(11)
Net cash outflow in respect of the purchase of businesses	**351**	657

13 – Reconciliation of opening to closing net debt

	Cash and cash equivalents $m	Bank overdrafts $m	Total cash, cash equivalents and bank overdrafts $m	Derivative[1] financial instruments $m	Loans[1] $m	Obligations[1] under finance leases $m	Net debt excluding lease liabilities $m	Lease[1] liabilities $m	Net debt including lease liabilities $m
At July 31, 2018	833	(375)	458	(2)	(1,530)	(6)	(1,080)	–	(1,080)
Cash movements									
Proceeds from loans and derivatives			–	(7)	(750)	–	(757)	–	(757)
Repayments of loans			–	–	2	–	2	–	2
Finance lease capital payments			–	–	–	3	3	–	3
Changes in net debt due to disposal of businesses			(1)	–	–	–	(1)	–	(1)
Changes in net debt due to acquisition of businesses			11	–	–	(3)	8	–	8
Other cash flows			628	–	–	–	628	–	628
Non-cash movements									
Fair value and other adjustments			–	25	(26)	–	(1)	–	(1)
Exchange movements			(10)	6	7	–	3	–	3
At July 31, 2019	**1,133**	**(47)**	**1,086**	**22**	**(2,297)**	**(6)**	**(1,195)**	**–**	**(1,195)**
Adjustment on adoption of IFRS 16	**–**	**–**	**–**	**–**	**–**	**6**	**6**	**(1,481)**	**(1,475)**
At August 1, 2019	**1,133**	**(47)**	**1,086**	**22**	**(2,297)**	**–**	**(1,189)**	**(1,481)**	**(2,670)**
Cash movements									
Proceeds from loans and derivatives			**–**	**(7)**	**(1,162)**	**–**	**(1,169)**	**–**	**(1,169)**
Repayments of loans			**–**	**–**	**566**	**–**	**566**	**–**	**566**
Lease liability capital payments[2]			**–**	**–**	**–**	**–**	**–**	**295**	**295**
Interest paid on lease liabilities[2]			**–**	**–**	**–**	**–**	**–**	**53**	**53**
Changes in net debt due to acquisition of businesses			**6**	**–**	**–**	**–**	**6**	**–**	**6**
Other cash flows			**771**	**–**	**–**	**–**	**771**	**–**	**771**
Non-cash movements									
Lease liability additions			**–**	**–**	**–**	**–**	**–**	**(115)**	**(115)**
Changes in lease liabilities due to acquisition of businesses			**–**	**–**	**–**	**–**	**–**	**(30)**	**(30)**
Discount unwinding on lease liabilities			**–**	**–**	**–**	**–**	**–**	**(53)**	**(53)**
Fair value and other adjustments			**–**	**28**	**(20)**	**–**	**8**	**(16)**	**(8)**
Exchange movements			**4**	**(4)**	**(5)**	**–**	**(5)**	**(8)**	**(13)**
At July 31, 2020	**2,115**	**(248)**	**1,867**	**39**	**(2,918)**	**–**	**(1,012)**	**(1,355)**	**(2,367)**

1. Liabilities from financing activities.
2. Total cash outflow in relation to leases including short-term leases, leases of low value assets and sublease income in the year ended July 31, 2020 was $377 million.

14 – 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:

	2020	2019
Pounds sterling translation rate		
Income statement	**0.79**	0.78
Balance sheet	**0.76**	0.82
Canadian dollar translation rate		
Income statement	**1.35**	1.32
Balance sheet	**1.34**	1.32