

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended January 31, 2023

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 001-40066



Ferguson plc

(Exact name of registrant as specified in its charter)

Jersey, Channel Islands

(State or other jurisdiction of
incorporation or organization)

98-1499339

(I.R.S. Employer Identification No.)

1020 Eskdale Road, Winnersh Triangle, Wokingham,
Berkshire, RG41 5TS, United Kingdom

(Address of principal executive offices and zip code)

+44 (0) 118 927 3800

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Ordinary Shares of 10 pence	FERG	New York Stock Exchange London Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of February 28, 2023, the number of outstanding ordinary shares was 206,100,063.

EXPLANATORY NOTE

Ferguson plc (the “Company”), a corporation organized under the laws of Jersey, Channel Islands, qualifies as a foreign private issuer in the United States for purposes of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The Company voluntarily has chosen to file annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K with the United States Securities and Exchange Commission instead of filing on the reporting forms available to foreign private issuers. As of January 31, 2023, the Company has determined it will no longer qualify as a foreign private issuer, effective as of August 1, 2023, and will be considered a U.S. domestic issuer.

TABLE OF CONTENTS

	PAGE
CERTAIN TERMS	1
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS	1
PART I – FINANCIAL INFORMATION	3
Item 1. Financial Statements	3
Condensed Consolidated Statements of Earnings	3
Condensed Consolidated Statements of Comprehensive Income	4
Condensed Consolidated Balance Sheets	5
Condensed Consolidated Statements of Shareholders' Equity	6
Condensed Consolidated Statements of Cash Flows	8
Notes to the Condensed Consolidated Financial Statements	9
Note 1: Summary of significant accounting policies	9
Note 2: Revenue and segment information	10
Note 3: Earnings per share	12
Note 4: Income tax	13
Note 5: Debt	14
Note 6: Assets and liabilities at fair value	16
Note 7: Commitments and contingencies	16
Note 8: Accumulated other comprehensive loss	16
Note 9: Retirement benefit obligations	17
Note 10: Shareholders' equity	18
Note 11: Share-based compensation	18
Note 12: Acquisitions	20
Note 13: Related party transactions	21
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3. Quantitative and Qualitative Disclosures About Market Risk	30
Item 4. Controls and Procedures	30
PART II - OTHER INFORMATION	31
Item 1. Legal Proceedings	31
Item 1A. Risk Factors	31
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	32
Item 6. Exhibits	33
SIGNATURES	34

CERTAIN TERMS

Unless otherwise specified or the context otherwise requires, the terms “Company,” “Ferguson,” “we,” “us” and “our” and other similar terms refer to Ferguson plc and its consolidated subsidiaries. Except as otherwise specified or the context otherwise requires, references to years indicate our fiscal year ended July 31 of the respective year. For example, references to “fiscal 2023” or similar references refer to the fiscal year ended July 31, 2023.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information included in this quarterly report on Form 10-Q (this “Quarterly Report”) is forward-looking, including within the meaning of the Private Securities Litigation Reform Act of 1995, and involves risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied by forward-looking statements. Forward-looking statements cover all matters which are not historical facts and include, without limitation, statements or guidance regarding or relating to our future financial position, results of operations and growth, projected interest in and ownership of our ordinary shares by domestic U.S. investors, plans and objectives for future capabilities, risks associated with changes in global and regional economic, market and political conditions, ability to manage supply chain challenges, ability to manage the impact of product price fluctuations, our financial condition and liquidity, legal or regulatory changes, and other statements concerning the success of our business and strategies.

Forward-looking statements can be identified by the use of forward-looking terminology, including terms such as “believes,” “estimates,” “anticipates,” “potential,” “expects,” “forecasts,” “intends,” “continues,” “plans,” “projects,” “goal,” “target,” “aim,” “may,” “will,” “would,” “could” or “should” or, in each case, their negative or other variations or comparable terminology and other similar references to future periods. Forward-looking statements speak only as of the date on which they are made. They are not assurances of future performance and are based only on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Therefore, you should not place undue reliance on any of these forward-looking statements. Although we believe that the forward-looking statements contained in this Quarterly Report are based on reasonable assumptions, you should be aware that many factors could cause actual results to differ materially from those in such forward-looking statements, including but not limited to:

- weakness in the economy, market trends, uncertainty and other conditions in the markets in which we operate, and other factors beyond our control, including any macroeconomic or other consequences of the current conflict in Ukraine;
- failure to rapidly identify or effectively respond to direct and/or end customers’ wants, expectations or trends, including costs and potential problems associated with new or upgraded information technology systems;
- decreased demand for our products as a result of operating in highly competitive industries and the impact of declines in the residential and non-residential markets, as well as the repair, maintenance and improvement (“RMI”) and new construction markets;
- changes in competition, including as a result of market consolidation;
- failure of a key information technology system or process as well as exposure to fraud or theft resulting from payment-related risks;
- privacy and protection of sensitive data failures, including failures due to data corruption, cybersecurity incidents or network security breaches;
- ineffectiveness of or disruption in our domestic or international supply chain or our fulfillment network, including delays in inventory, increased delivery costs or lack of availability;
- failure to effectively manage and protect our facilities and inventory;
- unsuccessful execution of our operational strategies;
- failure to attract, retain and motivate key associates;
- exposure of associates, contractors, customers, suppliers and other individuals to health and safety risks;

- inherent risks associated with acquisitions, partnerships, joint ventures and other business combinations, dispositions or strategic transactions;
- regulatory, product liability and reputational risks and the failure to achieve and maintain a high level of product and service quality;
- inability to renew leases on favorable terms or at all, as well as any remaining obligations under a lease if we close a facility;
- changes in, interpretations of, or compliance with tax laws in the United States, the United Kingdom, Switzerland or Canada;
- our indebtedness and changes in our credit ratings and outlook;
- fluctuations in foreign currency and product prices (e.g., commodity-priced materials, inflation/deflation);
- funding risks related to our defined benefit pension plans;
- legal proceedings as well as failure to comply with domestic and foreign laws and regulations or the occurrence of unforeseen developments such as litigation;
- risks associated with the relocation of our primary listing to the United States and any volatility in our share price and shareholder base in connection therewith;
- the costs and risk exposure relating to environmental, social and governance (“ESG”) matters;
- adverse impacts caused by the COVID-19 pandemic (or related variants); and
- other risks and uncertainties set forth under the heading “Risk Factors” in this Quarterly Report and in our Annual Report on Form 10-K for the fiscal year ended July 31, 2022 as filed with the Securities and Exchange Commission (“SEC”) on September 27, 2022 (the “Annual Report”) and in other filings we make with the SEC in the future.

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 our legal or regulatory obligations, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements

**Ferguson plc
Condensed Consolidated Statements of Earnings
(unaudited)**

(In millions, except per share amounts)	Three months ended		Six months ended	
	January 31,		January 31,	
	2023	2022	2023	2022
Net sales	\$6,825	\$6,508	\$14,756	\$13,311
Cost of sales	(4,763)	(4,519)	(10,273)	(9,195)
Gross profit	2,062	1,989	4,483	4,116
Selling, general and administrative expenses	(1,432)	(1,362)	(2,941)	(2,676)
Depreciation and amortization	(81)	(72)	(162)	(146)
Operating profit	549	555	1,380	1,294
Interest expense, net	(47)	(22)	(88)	(49)
Other expense, net	(7)	(1)	(5)	(2)
Income before income taxes	495	532	1,287	1,243
Provision for income taxes	(121)	(96)	(318)	(272)
Income from continuing operations	374	436	969	971
Income from discontinued operations (net of tax)	—	—	—	25
Net income	\$374	\$436	\$969	\$996
Earnings per share - Basic:				
Continuing operations	\$1.81	\$1.98	\$4.66	\$4.40
Discontinued operations	—	—	—	0.11
Total	\$1.81	\$1.98	\$4.66	\$4.51
Earnings per share - Diluted:				
Continuing operations	\$1.80	\$1.97	\$4.64	\$4.38
Discontinued operations	—	—	—	0.11
Total	\$1.80	\$1.97	\$4.64	\$4.49
Weighted average number of shares outstanding:				
Basic	207.1	220.0	207.9	220.7
Diluted	207.8	221.2	208.8	222.0

See accompanying Notes to the Condensed Consolidated Financial Statements.

Ferguson plc
Condensed Consolidated Statements of Comprehensive Income
(unaudited)

(In millions)	Three months ended		Six months ended	
	January 31,		January 31,	
	2023	2022	2023	2022
Net income	\$374	\$436	\$969	\$996
Other comprehensive income (loss):				
Foreign currency translation adjustments	18	(14)	(18)	(14)
Pension income (loss), net of tax expense of (\$3), (\$10), (\$1), and (\$10) respectively.	8	(21)	7	(18)
Total other comprehensive income (loss), net of tax	26	(35)	(11)	(32)
Comprehensive income	\$400	\$401	\$ 958	\$ 964

See accompanying Notes to the Condensed Consolidated Financial Statements.

Ferguson plc
Condensed Consolidated Balance Sheets
(unaudited)

(In millions, except share amounts)	As of	
	January 31, 2023	July 31, 2022
Assets		
Cash and cash equivalents	\$597	\$771
Accounts receivable, less allowances of \$47 and \$27, respectively	3,166	3,610
Inventories	4,173	4,333
Prepaid and other current assets	813	834
Assets held for sale	19	3
Total current assets	8,768	9,551
Property, plant and equipment, net	1,482	1,376
Operating lease right-of-use assets	1,294	1,200
Deferred income taxes, net	214	177
Goodwill	2,094	2,048
Other intangible assets, net	799	782
Other non-current assets	565	527
Total assets	\$15,216	\$15,661
Liabilities and shareholders' equity		
Accounts payable	\$3,155	\$3,607
Short-term debt	55	250
Current portion of operating lease liabilities	336	321
Dividend payable	156	—
Share repurchase liability	139	324
Other current liabilities	1,073	1,297
Total current liabilities	4,914	5,799
Long-term debt	3,936	3,679
Long-term portion of operating lease liabilities	961	878
Other long-term liabilities	680	640
Total liabilities	10,491	10,996
Shareholders' equity:		
Ordinary shares, par value 10 pence: 500,000,000 shares authorized, 232,171,182 shares issued	30	30
Paid-in capital	789	760
Retained earnings	7,945	7,594
Treasury shares, 25,619,935 and 21,078,577 shares, respectively at cost	(3,151)	(2,782)
Employee Benefit Trusts, 283,604 and 846,491 shares, respectively at cost	(47)	(107)
Accumulated other comprehensive loss	(841)	(830)
Total shareholders' equity	4,725	4,665
Total liabilities and shareholders' equity	\$15,216	\$15,661

See accompanying Notes to the Condensed Consolidated Financial Statements.

Ferguson plc
Condensed Consolidated Statements of Shareholders' Equity
(unaudited)

Three Months Ended January 31, 2023

(In millions, except per share data)	Ordinary Shares	Paid-in Capital	Retained Earnings	Treasury Shares	Employee Benefit Trusts	Accumulated Other Comprehensive Loss	Total Equity
Balance at October 31, 2022	\$30	\$773	\$8,129	(\$2,897)	(\$47)	(\$867)	\$5,121
Share-based compensation	—	16	—	—	—	—	16
Net income	—	—	374	—	—	—	374
Cash dividends declared (\$2.66)	—	—	(552)	—	—	—	(552)
Other comprehensive income	—	—	—	—	—	26	26
Share repurchases	—	—	—	(260)	—	—	(260)
Shares issued under employee share plans	—	—	(6)	6	—	—	—
Balance at January 31, 2023	\$30	\$789	\$7,945	(\$3,151)	(\$47)	(\$841)	\$4,725

Six months ended January 31, 2023

(In millions, except per share data)	Ordinary Shares	Paid-in Capital	Retained Earnings	Treasury Shares	Employee Benefit Trusts	Accumulated Other Comprehensive Loss	Total Equity
Balance at July 31, 2022	\$30	\$760	\$7,594	(\$2,782)	(\$107)	(\$830)	\$4,665
Share-based compensation	—	29	—	—	—	—	29
Net income	—	—	969	—	—	—	969
Cash dividends declared (\$2.66)	—	—	(552)	—	—	—	(552)
Other comprehensive loss	—	—	—	—	—	(11)	(11)
Share repurchases	—	—	—	(375)	—	—	(375)
Shares issued under employee share plans	—	—	(66)	6	60	—	—
Balance at January 31, 2023	\$30	\$789	\$7,945	(\$3,151)	(\$47)	(\$841)	\$4,725

Three Months Ended January 31, 2022

(In millions, except per share data)	Ordinary Shares	Paid-in Capital	Retained Earnings	Treasury Shares	Employee Benefit Trusts	Accumulated Other Comprehensive Loss	Total Equity
Balance at October 31, 2021	\$30	\$728	\$6,564	(\$1,314)	(\$58)	(\$793)	\$5,157
Share-based compensation	—	9	—	—	—	—	9
Net income	—	—	436	—	—	—	436
Other comprehensive loss	—	—	—	—	—	(35)	(35)
Cash dividends declared (\$1.665)	—	—	(368)	—	—	—	(368)
Share repurchases	—	—	—	(322)	(49)	—	(371)
Shares issued under employee share plans	—	—	—	—	—	—	—
Other	—	—	17	—	—	—	17
Balance at January 31, 2022	\$30	\$737	\$6,649	(\$1,636)	(\$107)	(\$828)	\$4,845

Six months ended January 31, 2022

(In millions, except per share data)	Ordinary Shares	Paid-in Capital	Retained Earnings	Treasury Shares	Employee Benefit Trusts	Accumulated Other Comprehensive Loss	Total Equity
Balance at July 31, 2021	\$30	\$704	\$6,054	\$ (931)	(\$58)	(\$796)	\$5,003
Share-based compensation	—	33	—	—	—	—	33
Net income	—	—	996	—	—	—	996
Other comprehensive loss	—	—	—	—	—	(32)	(32)
Cash dividends declared (\$1.665)	—	—	(368)	—	—	—	(368)
Share repurchases	—	—	—	(712)	(92)	—	(804)
Shares issued under employee share plans	—	—	(50)	7	43	—	—
Other	—	—	17	—	—	—	17
Balance at January 31, 2022	\$30	\$737	\$6,649	(\$1,636)	(\$107)	(\$828)	\$4,845

See accompanying Notes to the Condensed Consolidated Financial Statements.

Ferguson plc
Condensed Consolidated Statements of Cash Flows
(unaudited)

(In millions)	Six months ended January 31,	
	2023	2022
Cash flows from operating activities:		
Net income	\$969	\$996
(Income) from discontinued operations	—	(25)
Income from continuing operations	969	971
Depreciation and amortization	162	146
Share-based compensation	27	30
Net loss on disposal of assets and impairment	—	15
Decrease (increase) in inventories	237	(463)
Decrease (increase) in receivables and other assets	512	(117)
Decrease in accounts payable and other liabilities	(634)	(261)
Change in deferred taxes and income tax payable	(101)	(98)
Other operating activities	3	6
Net cash provided by operating activities of continuing operations	1,175	229
Net cash used in operating activities of discontinued operations	(4)	—
Net cash provided by operating activities	1,171	229
Cash flows from investing activities:		
Purchase of businesses acquired, net of cash acquired	(179)	(245)
Capital expenditures	(242)	(122)
Other investing activities	(4)	(5)
Net cash used in investing activities of continuing operations	(425)	(372)
Net cash provided by investing activities of discontinued operations	—	25
Net cash used in investing activities	(425)	(347)
Cash flows from financing activities:		
Purchase of own shares by Employee Benefit Trusts	—	(92)
Purchase of treasury shares	(564)	(417)
Repayments of debt	(1,880)	—
Proceeds from debt	1,950	500
Change in bank overdrafts	4	10
Cash dividends	(403)	(364)
Other financing activities	(13)	(9)
Net cash used in financing activities	(906)	(372)
Change in cash, cash equivalents and restricted cash	(160)	(490)
Effects of exchange rate changes	19	(10)
Cash, cash equivalents and restricted cash, beginning of period	785	1,342
Cash, cash equivalents and restricted cash, end of period	<u>\$644</u>	<u>\$842</u>
Supplemental Disclosures:		
Cash paid for income taxes	\$419	\$370
Cash paid for interest	83	47
Accrued capital expenditures	7	9

See accompanying Notes to the Condensed Consolidated Financial Statements.

Ferguson plc
Notes to the Condensed Consolidated Financial Statements
(unaudited)

Note 1: Summary of significant accounting policies

Background

Ferguson plc (the “Company”) (NYSE: FERG; LSE: FERG) is a public company limited by shares incorporated in Jersey under the Companies (Jersey) Law 1991 (as amended). The Company is a value-added distributor in North America providing expertise, solutions and products from infrastructure, plumbing and appliances to HVAC, fire, fabrication and more. We exist to make our customers’ complex projects simple, successful and sustainable. Ferguson is headquartered in the United Kingdom (“U.K.”), with its operations and associates solely focused on North America and managed from Newport News, Virginia. The Company’s registered office is 13 Castle Street, St Helier, Jersey, JE1 1ES, Channel Islands.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements and notes to the condensed consolidated financial statements are presented in accordance with the rules and regulations of the Securities and Exchange Commission and accounting principles generally accepted in the United States of America (“U.S. GAAP”), but do not include all the disclosures normally required in annual consolidated financial statements. The unaudited condensed consolidated financial statements, in the opinion of management, contain all normal recurring adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented. The July 31, 2022 condensed consolidated balance sheet was derived from the audited financial statements.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report. The financial results for the interim periods may not be indicative of the financial results for the entire fiscal year.

Use of estimates

The preparation of the Company's interim condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions affecting certain reported amounts. Actual results may differ from those estimates.

Cash, cash equivalents and restricted cash

Cash and cash equivalents include cash on hand, deposits with banks with original maturities of three months or less and overdrafts to the extent there is a legal right of offset and practice of net settlement with cash balances.

Restricted cash primarily consists of deferred consideration for business combinations, subject to various settlement agreements, and is recorded in prepaid and other current assets in the Company’s condensed consolidated balance sheets.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the condensed consolidated balance sheets that sum to the total of the same such amounts shown in the condensed consolidated statements of cash flows.

(In millions)	As of	
	January 31, 2023	July 31, 2022
Cash and cash equivalents	\$597	\$771
Restricted cash	47	14
Total cash, cash equivalents and restricted cash	\$644	\$785

Recently issued accounting pronouncements

In March 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of Effects of Reference Rate Reform on Financial Reporting. This ASU, and subsequent clarifications, provide practical expedients for contract modification accounting related to the transition away from the London Interbank Offered Rate (“LIBOR”) and other interbank offering rates to alternative reference rates. The expedients are applicable to contract modifications made and hedging relationships entered into on or before December 31, 2022. The amendments should be applied on a prospective basis. The Company has evaluated the impact of reference rate reform and concluded the impact is not material to the Company’s consolidated financial statements.

In October 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. The amendments address how to determine whether a contract liability is recognized by the acquirer in a business combination and provides specific guidance on how to recognize and measure acquired contract assets and contract liabilities from revenue contracts in a business combination. For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption of the amendments is permitted, including adoption in an interim period. The Company does not expect a material impact to the Company’s consolidated financial statements.

Recent accounting pronouncements pending adoption that are not discussed above are either not applicable, or will not have, or are not expected to have, a material impact on our consolidated financial condition, results of operations, cash flows or related disclosures.

Note 2: Revenue and segment information

The Company reports its financial results of operations on a geographical basis in the following two reportable segments: United States and Canada. Each segment generally derives its revenues in the same manner. The Company uses adjusted operating profit as its measure of segment profit. Adjusted operating profit is defined as profit before tax, excluding central and other costs, restructuring costs, amortization of acquired intangible assets, net interest expense, as well as other items typically recorded in net other (expense) income such as (loss)/gain on disposal of businesses, pension plan changes/closure costs and amounts recorded in connection with the Company’s interests in investees. Certain income and expenses are not allocated to the Company’s segments and, thus, the information that management uses to make operating decisions and assess performance does not reflect such amounts.

Segment details were as follows:

(In millions)	Three months ended		Six months ended	
	January 31,		January 31,	
	2023	2022	2023	2022
Net sales:				
United States	\$6,504	\$6,172	\$14,036	\$12,590
Canada	321	336	720	721
Total net sales	<u>\$6,825</u>	<u>\$6,508</u>	<u>\$14,756</u>	<u>\$13,311</u>
Adjusted operating profit:				
United States	\$579	\$576	\$1,424	\$1,328
Canada	14	23	47	57
Central and other costs	(11)	(11)	(25)	(30)
Corporate restructurings ⁽¹⁾	—	(6)	—	(7)
Amortization of acquired intangible assets	(33)	(27)	(66)	(54)
Interest expense, net	(47)	(22)	(88)	(49)
Other (expense) income, net	(7)	(1)	(5)	(2)
Income before income taxes	<u>\$495</u>	<u>\$532</u>	<u>\$1,287</u>	<u>\$1,243</u>

(1) For the three and six months ended January 31, 2022, corporate restructuring costs related to the incremental costs of the Company’s listing in the United States.

Our products are delivered through a common network of distribution centers, branches, specialist sales associates, counter service, showroom consultants and e-commerce. The Company recognizes revenue when a sales arrangement with a customer exists, the transaction price is fixed or determinable and the Company has satisfied its performance obligation per the sales arrangement. The majority of the Company's revenue originates from sales arrangements with a single performance obligation to deliver products, whereby the performance obligations are satisfied when control of the product is transferred to the customer which is the point the product is delivered to, or collected by, the customer.

The Company determined that disaggregating net sales by end market at the segment level achieves the disclosure objective to depict how the nature, amount, timing, and uncertainty of revenue and cash flows may be impacted by economic factors. The disaggregated net sales by end market are as follows:

(In millions)	Three months ended		Six months ended	
	January 31,		January 31,	
	2023	2022	2023	2022
United States:				
Residential	\$3,420	\$3,386	\$7,422	\$6,863
Non-residential:				
Commercial	2,114	1,939	4,533	3,992
Civil/Infrastructure	508	473	1,146	974
Industrial	462	374	935	761
Total Non-residential	3,084	2,786	6,614	5,727
Total United States	6,504	6,172	14,036	12,590
Canada	321	336	720	721
Total net sales	\$6,825	\$6,508	\$14,756	\$13,311

No sales to an individual customer accounted for more than 10% of net sales during any of the periods presented.

The Company is a value-added distributor of products from infrastructure, plumbing and appliances to HVAC, fire, fabrication and more. We offer a broad line of products, and items are regularly added to and removed from the Company's inventory. Accordingly, it would be impractical to provide sales information by product category due to the way our business is managed and the dynamic nature of the inventory offered.

Note 3: Earnings per share

Basic earnings per share is calculated using our weighted-average outstanding ordinary shares. Diluted earnings per share is calculated using our weighted-average outstanding ordinary shares including the dilutive effect of share awards as determined under the treasury stock method.

The following table shows the calculation of diluted shares:

(In millions, except per share amounts)	Three months ended		Six months ended	
	January 31,		January 31,	
	2023	2022	2023	2022
Income from continuing operations	\$374	\$436	\$969	\$971
Income from discontinued operations (net of tax)	—	—	—	25
Net income	<u>\$374</u>	<u>\$436</u>	<u>\$969</u>	<u>\$996</u>
Weighted average number of shares outstanding:				
Basic weighted-average shares	207.1	220.0	207.9	220.7
Effect of dilutive shares	0.7	1.2	0.9	1.3
Diluted weighted-average shares	<u>207.8</u>	<u>221.2</u>	<u>208.8</u>	<u>222.0</u>
Earnings per share - Basic:				
Continuing operations	\$1.81	\$1.98	\$4.66	\$4.40
Discontinued operations	—	—	—	0.11
Total	<u>\$1.81</u>	<u>\$1.98</u>	<u>\$4.66</u>	<u>\$4.51</u>
Earnings per share - Diluted:				
Continuing operations	\$1.80	\$1.97	\$4.64	\$4.38
Discontinued operations	—	—	—	0.11
Total	<u>\$1.80</u>	<u>\$1.97</u>	<u>\$4.64</u>	<u>\$4.49</u>
Excluded anti-dilutive shares	0.1	—	0.1	0.1

Note 4: Income tax

Ferguson manages its affairs so that it is centrally managed and controlled in the U.K. and therefore has its tax residency in the U.K. The provision for income taxes consists of provisions for the U.K. plus non-U.K. tax rate differentials with respect to other locations in which Ferguson's operations are based. Accordingly, the consolidated income tax rate is a composite rate reflecting earnings in various locations and the applicable rates.

The Company's tax provision for each period presented was calculated using an estimated annual tax rate, adjusted for discrete items occurring during the applicable period to arrive at an effective tax rate. The effective income tax rates for the relevant periods were as follows:

	Three months ended		Six months ended	
	January 31,		January 31,	
	2023	2022	2023	2022
Effective tax rate, continuing operations	24.4 %	18.0 %	24.7 %	21.9 %

During the year-to-date period of fiscal 2023, there have been no material changes to the Company's unrecognized tax benefits when compared to those items disclosed in the Company's Annual Report.

As disclosed in our Annual Report, we consider foreign earnings of specific subsidiaries to be indefinitely reinvested. If at some future date, the Company ceases to be permanently reinvested in these foreign subsidiaries, the Company may be subject to foreign withholding and other taxes on these undistributed earnings and may need to record a deferred tax liability for any outside basis difference on these specific foreign subsidiaries. The potential impact in connection with these items has not materially changed since the end of fiscal 2022.

Note 5: Debt

The Company's debt obligations consisted of the following:

(In millions)	As of	
	January 31, 2023	July 31, 2022
Variable-rate debt:		
Receivables Securitization Facility	\$275	\$455
Term Loan	500	—
Private Placement Notes:		
3.43% due September 2022	—	250
3.30% due November 2023	55	55
3.44% due November 2024	150	150
3.73% due September 2025	400	400
3.51% due November 2026	150	150
3.83% due September 2027	150	150
Unsecured Senior Notes:		
4.50% due October 2028	750	750
3.25% due June 2030	600	600
4.25% due April 2027	300	300
4.65% due April 2032	700	700
Subtotal	\$4,030	\$3,960
Less: current maturities of debt	(55)	(250)
Unamortized discounts and debt issuance costs	(24)	(24)
Interest rate swap - fair value adjustment	(15)	(7)
Total long-term debt	<u>\$3,936</u>	<u>\$3,679</u>

Private Placement Notes

During the first quarter of fiscal 2023, the 3.43% notes due in September 2022 were repaid at maturity.

Bilateral Loan

The Company previously maintained an unsecured \$250 million 364-day revolving facility (the "Bilateral Loan Facility") governed by the Revolving Facility Agreement, dated March 25, 2022, among the Company, Ferguson UK Holdings Limited, a wholly-owned subsidiary of the Company ("Ferguson UK"), Sumitomo Mitsui Banking Corporation, London Branch, as lead arranger, the lenders party thereto and SMBC Bank International PLC, as agent for the lenders (the "Bilateral Loan Agreement").

Effective December 29, 2022, the Company voluntarily cancelled the Bilateral Loan Facility in accordance with the terms of the Bilateral Loan Agreement. At the time of cancellation, no amounts were outstanding under the Bilateral Loan Agreement.

Term Loan Agreement

The Credit Agreement, dated October 7, 2022, among the Company, Ferguson UK, the lenders party thereto and the agent of the lenders party thereto (the "Term Loan Agreement") provides for term loans in an aggregate principal amount of \$500 million, the proceeds of which may be used for general corporate purposes. The Term Loan Agreement will mature on October 7, 2025.

Term loans will bear interest at a rate per annum of the Term SOFR Rate, as defined in the Term Loan Agreement, plus a credit spread adjustment of 10 basis points plus a margin ranging from 100 to 150 basis points, determined on the basis of the Company's corporate credit ratings (or if public credit ratings are not published, senior unsecured debt ratings).

Ferguson UK may voluntarily prepay the term loans, in whole or in part, without premium or penalty, but subject to reimbursement of funding losses with respect to certain prepayments. Term loans that are prepaid may not be reborrowed.

The Term Loan Agreement contains representations and warranties and affirmative and negative covenants and events of default, including, but not limited to, restrictions on the incurrence of non-guarantor subsidiary indebtedness, additional liens, mergers and sales of assets and changes in nature of business, in each case, subject to certain conditions, exceptions and thresholds. The Term Loan Agreement also requires the Company to maintain on a consolidated basis, as of the last day of each fiscal quarter, a maximum net leverage ratio of 3.50 to 1.00, with a step-up to 4.00 to 1.00 with respect to each of the four fiscal quarters ending immediately after certain material acquisitions. The Company unconditionally and irrevocably guarantees the term loans.

Revolving Credit Facility

The Company maintains a revolving credit facility (the “Revolving Facility”) under the Amendment and Restatement Agreement, dated October 7, 2022, among the Company, Ferguson UK, the lenders and arrangers party thereto, and the agent of the lenders party thereto (as amended from time to time, the “Revolving Facility Agreement”). The Revolving Facility has aggregate total available credit commitments of \$1.35 billion. Borrowings under the Revolving Facility bear interest at a per annum rate of Term SOFR (as defined in the Revolving Facility Agreement) plus a credit spread adjustment of 10 basis points plus a margin ranging from 20 to 75 basis points, determined on the basis of the Company’s corporate credit ratings (or if public credit ratings are not published, senior unsecured debt ratings).

The Company is required to pay a quarterly commitment fee and utilization fee in certain circumstances. All obligations under the Revolving Facility Agreement are unconditionally guaranteed by the Company and Ferguson UK, to the extent each entity is not the borrower with respect to such obligation.

The Revolving Facility Agreement contains affirmative and negative covenants that, among other things, restrict, subject to certain conditions, exceptions and thresholds, the ability of the Company and its subsidiaries to incur indebtedness, grant liens on present or future assets or revenues, sell assets or engage in mergers or consolidations. The Revolving Facility Agreement also contains events of default, including, among others, cross-default and cross-acceleration provisions, in each case, subject to grace periods and thresholds. The Revolving Facility terminates in March 2026.

As of January 31, 2023, no borrowings were outstanding under the Revolving Facility.

Receivables Securitization Facility

The Company maintains a Receivables Securitization Facility (as amended from time to time, the “Receivables Facility”) governed by the Receivables Purchase Agreement dated July 31, 2013, as amended from time to time. As of October 31, 2022, the Receivables Facility consisted of accounts receivable funding for up to \$1.1 billion, including a swingline for up to \$100 million in same day funding, terminating on October 7, 2025. The Company has available to it an accordion feature whereby the facility may be increased up to \$1.5 billion subject to lender participation. Interest is payable under the Receivables Facility at a rate of Term SOFR (as defined in the Receivables Facility) plus a credit spread adjustment of 10 basis points plus a margin. The Company does not factor its accounts receivable as the Receivables Facility is the Company’s only secured borrowing.

The Receivables Facility contains affirmative and negative covenants that, among other things, restrict, subject to certain exceptions, the ability of the Company and its subsidiaries party thereto from granting additional liens on the accounts receivable, selling certain assets or engaging in acquisitions, mergers or consolidations, or, in the case of the borrower, incurring other indebtedness.

The Receivables Facility also contains events of default and cross-default provisions, including requirements that our performance in relation to accounts receivable remains at set levels (specifically, among other things, relating to timely payments being received from debtors on the accounts receivable and to the amount of accounts receivable written off as bad debt) and that a required level of accounts receivable be generated and available to support the borrowings under the arrangements. As of January 31, 2023, \$275 million in borrowings were outstanding under the Receivables Facility.

The Company pays customary fees regarding unused amounts to maintain the availability under the Receivables Facility.

The Company was in compliance with all debt covenants for all of these debt obligations and facilities that were in effect as of January 31, 2023.

Note 6: Assets and liabilities at fair value

The Company has not changed its valuation techniques for measuring fair value of any financial assets or liabilities during the periods presented. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and other debt instruments, such as the receivables securitization facility and term loans, approximate the fair values of those instruments.

The Company's derivatives (interest rate swaps which are considered fair value hedges) and investments in equity instruments are carried at fair value on the condensed consolidated balance sheets (Level 2 and Level 3 fair value inputs, respectively) and are not material. The notional amount of the Company's outstanding fair value hedges as of January 31, 2023 and July 31, 2022 was \$355 million.

Carrying amounts and the related estimated fair value (Level 2) of the Company's long-term debt were as follows:

(In millions)	January 31, 2023		July 31, 2022	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Unsecured Senior Notes	\$2,329	\$2,213	\$2,328	\$2,350
Private Placement Notes	903	872	1,153	1,142

Note 7: Commitments and contingencies

Legal matters

The Company is, from time to time, involved in various legal proceedings considered to be normal course of business in relation to, among other things, the products that we supply, contractual and commercial disputes and disputes with employees. Provision is made if, on the basis of current information and professional advice, liabilities are considered likely to arise. In the case of unfavorable outcomes, the Company may benefit from applicable insurance protection. The Company does not expect any of its pending legal proceedings to have a material adverse effect on its results of operations, financial position or cash flows.

Note 8: Accumulated other comprehensive loss

The change in accumulated other comprehensive loss was as follows:

(In millions, net of tax)	Foreign currency translation	Pensions	Total
Balance at July 31, 2022	(\$420)	(\$410)	(\$830)
Other comprehensive (loss) before reclassifications	(36)	(3)	(39)
Amounts reclassified from accumulated other comprehensive (loss) income	—	2	2
Other comprehensive (loss)	(36)	(1)	(37)
Balance at October 31, 2022	(456)	(411)	(867)
Other comprehensive (loss) income before reclassifications	18	6	24
Amounts reclassified from accumulated other comprehensive (loss) income	—	2	2
Other comprehensive (loss) income	18	8	26
Balance at January 31, 2023	(\$438)	(\$403)	(\$841)

(In millions, net of tax)	Foreign currency translation	Pensions	Total
Balance at July 31, 2021	(\$396)	(\$400)	(\$796)
Other comprehensive (loss) income before reclassifications	—	1	1
Amounts reclassified from accumulated other comprehensive loss	—	2	2
Other comprehensive (loss) income	—	3	3
Balance at October 31, 2021	(396)	(397)	(793)
Other comprehensive (loss) before reclassifications	(14)	(23)	(37)
Amounts reclassified from accumulated other comprehensive (loss) income	—	2	2
Other comprehensive (loss)	(14)	(21)	(35)
Balance at January 31, 2022	(\$410)	(\$418)	(\$828)

Amounts reclassified from accumulated other comprehensive income related to pension and other post-retirement items include the related income tax impacts. Such amounts consisted of the following:

(In millions, net of tax)	Three months ended		Six months ended	
	January 31,		January 31,	
	2023	2022	2023	2022
Amortization of actuarial losses	\$3	\$2	\$6	\$5
Tax benefit	(1)	—	(2)	(1)
Amounts reclassified from accumulated other comprehensive loss	\$2	\$2	\$4	\$4

Note 9: Retirement benefit obligations

The Company maintains pension plans in the U.K. and Canada. The components of net periodic pension cost, which are included in other income (expense) in the condensed consolidated statements of earnings, were as follows:

(In millions)	Three months ended		Six months ended	
	January 31,		January 31,	
	2023	2022	2023	2022
Interest cost	(\$13)	(\$10)	(\$25)	(\$20)
Expected return on plan assets	12	11	24	23
Amortization of net actuarial losses	(3)	(2)	(6)	(5)
Net periodic cost	(\$4)	(\$1)	(\$7)	(\$2)

The impact of exchange rate fluctuations is included on the amortization line above.

Note 10: Shareholders' equity

The following table presents a summary of the Company's share activity:

	Three months ended		Six months ended	
	January 31,		January 31,	
	2023	2022	2023	2022
Ordinary shares:				
Balance at beginning of period	232,171,182	232,171,182	232,171,182	232,171,182
Change in shares issued	—	—	—	—
Balance at end of period	232,171,182	232,171,182	232,171,182	232,171,182
Treasury shares:				
Balance at beginning of period	(24,069,674)	(10,557,893)	(21,078,577)	(9,862,816)
Repurchases of ordinary shares	(1,601,423)	(1,960,893)	(4,592,520)	(2,725,367)
Treasury shares used to settle share-based compensation awards	51,162	971	51,162	70,368
Balance at end of period	(25,619,935)	(12,517,815)	(25,619,935)	(12,517,815)
Employee Benefit Trusts:				
Balance at beginning of period	(284,562)	(549,704)	(846,491)	(833,189)
New shares purchased	—	(300,000)	—	(600,000)
Employee Benefit Trust shares used to settle share-based compensation awards	958	222	562,887	583,707
Balance at end of period	(283,604)	(849,482)	(283,604)	(849,482)
Total shares outstanding at end of period	206,267,643	218,803,885	206,267,643	218,803,885

Two Employee Benefit Trusts have been established in connection with the Company's discretionary share option plans and long-term incentive plans. Dividends due on shares held by the Employee Benefit Trusts are waived in accordance with the provisions of the trust deeds. At January 31, 2023 and July 31, 2022, the shares held in trusts had a market values of \$40 million and \$107 million, respectively.

Share Repurchases

In September 2021, the Company announced a program to repurchase up to \$1.0 billion of shares. In March 2022 and September 2022, the Company announced an increase in its share repurchase program of \$1.0 billion and \$0.5 billion, respectively. As of January 31, 2023, the Company has completed \$2.1 billion of the total announced \$2.5 billion repurchase program. The Company is currently purchasing shares under an irrevocable and non-discretionary arrangement with \$139 million in accrued repurchases remaining, which is recorded as a current liability in the condensed consolidated balance sheet.

Note 11: Share-based compensation

The Ferguson Group Ordinary Share Plan 2019 (the "OSP") and the Ferguson Group Performance Ordinary Share Plan 2019 (the "POSP") each provides for the grant of equity awards without limitation on the number of ordinary shares that can be awarded under the plan. The Ferguson Group Long-Term Incentive Plan 2019 ("LTIP") contains guidelines that limit the maximum number of shares that can be granted under this plan.

Awards granted under the OSP vest over a period of time ("time vested"), typically three years. Dividends do not accrue during the vesting period. The fair value of the award is based on the closing share price on the date of grant.

Awards granted under the POSP vest at the end of a three-year performance cycle ("performance vested"). The number of ordinary shares issued upon vesting varies based upon the Company's performance against an adjusted operating profit measure. Dividends do not accrue during the vesting period. The fair value of the award is based on the closing share price on the date of grant.

Awards granted under the LTIP vest at the end of a three-year performance period. For grants awarded prior to fiscal 2023, the number of ordinary shares to be issued upon vesting will vary based on Company measures of inflation-indexed earnings per share (“EPS”), cash flow and total shareholder return (“TSR”) compared to a peer company set. Based on the performance conditions of these awards granted prior to fiscal 2023, these LTIP grants are treated as liability-settled awards. As such, the fair value of these awards is initially determined at the date of grant, and is remeasured at each balance sheet date until the liability is settled. Dividends accrue during the vesting period. As of January 31, 2023 and July 31, 2022, the total liability recorded in connection with these grants was \$9 million and \$11 million, respectively.

In the first quarter of fiscal 2023, the Company granted awards under the LTIP in which the ordinary shares to be issued upon vesting vary based on fixed measures of Company defined EPS and return on capital employed (“ROCE”), as well as TSR compared to a peer company set. Dividend equivalents accrue during the vesting period. Based on the performance conditions of these awards granted in the first quarter of fiscal 2023, these grants are treated as equity-settled awards (“LTIP, equity-settled”) with the fair value determined on the date of grant. Specifically, the fair value of such awards that vest based on achievement of the EPS and ROCE measures was equal to the closing share price on the date of grant. The fair value of the awards that vest based on TSR was determined using a Monte-Carlo simulation, which estimated the fair value based on the Company's share price activity relative to the peer comparative set over the expected term of the award, risk-free interest rate, expected dividends, and the expected volatility of the shares of the Company and that of the peer company set.

The following table summarizes the share-based incentive awards activity for the six months ended January 31, 2023:

	Number of Shares	Weighted Average grant date fair value
Outstanding at July 31, 2022	1,576,554	\$100.03
Time vested grants	118,462	100.06
Performance vested grants	276,954	100.06
LTIP, equity-settled grants	37,676	91.84
Share adjustments based on performance	(20,766)	109.25
Vested	(611,636)	75.29
Forfeited	(41,649)	112.59
Outstanding at January 31, 2023	<u>1,335,595</u>	<u>\$110.60</u>

The following table relates to time vested, performance vested and long-term incentive awards activity:

(In millions, except per share amounts)	Six months ended January 31, 2023
Fair value of awards vested	\$66
Weighted-average grant date fair value per share granted	99.34

The following table relates to all share-based compensation awards:

(In millions)	Three months ended January 31,		Six months ended January 31,	
	2023	2022	2023	2022
Share-based compensation expense (within SG&A)	\$15	\$14	\$27	\$32
Income tax benefit	4	3	7	8

The total unrecognized share-based compensation expense at January 31, 2023 was \$67 million and is expected to be recognized over a weighted-average period of 1.9 years.

Note 12: Acquisitions

The Company acquired the following businesses during the six months ended January 31, 2023. Each of the acquired businesses are engaged in the distribution of plumbing and heating products and was acquired to support growth, primarily in the United States. All transactions have been accounted for by the acquisition method of accounting.

Name	Date of acquisition	Location	Equity/asset deal	Acquired %
Monark Premium Appliance	August 2022	USA	Asset	100 %
Guarino Distributing Company, L.L.C.	November 2022	USA	Asset	100 %
Airefco, Inc.	December 2022	USA	Asset	100 %
Power Process Equipment, Inc.	December 2022	USA	Asset	100 %
Pipelines, Inc.	January 2023	USA	Asset	100 %

The following table summarizes the preliminary purchase price allocation for the assets acquired and liabilities assumed in regards to the Company's acquisitions:

(In millions)	
Intangible assets:	
Trade names and brands	\$4
Customer relationships	62
Other	1
Right of use assets	17
Property, plant and equipment	4
Inventories	88
Trade and other receivables	32
Lease liabilities	(17)
Trade and other payables	(40)
Provisions	(4)
Total	147
Goodwill	53
Consideration	\$200
Satisfied by:	
Cash	\$179
Deferred consideration	\$21
Total consideration	\$200

The fair values of the assets acquired are considered preliminary and are based on management's best estimates. Further adjustments may be necessary when additional information becomes available about events that existed at the date of acquisition. Amendments to fair value estimates may be made to these figures during the measurement period following the date of acquisition. As of the date of this Quarterly Report, the Company has made all known material adjustments.

The fair value estimates of intangible assets are considered non-recurring Level 3 measurements within the fair value hierarchy and are estimated as of each respective acquisition date.

The goodwill on these acquisitions is attributable to the anticipated profitability of the new markets and product ranges to which the Company has gained access and additional profitability, operating efficiencies and other synergies available in connection with existing markets. All goodwill acquired during the six months ended January 31, 2023 is in the United States segment with all goodwill expected to be deductible for tax purposes.

Deferred consideration represents the expected payout due to certain sellers of acquired businesses that is subject to either 1) a contractual settle-up period or 2) contingent on achieving contractually defined performance metrics. If the deferred consideration is contingent on achieving performance metrics, the liability is estimated using assumptions regarding the expectations of an acquiree's ability to achieve the contractually defined performance metrics, over a period of time that typically spans one to three years. When ultimately paid, deferred consideration is reported as a cash outflow from financing activities.

The businesses acquired during the year-to-date period of fiscal 2023 contributed \$49 million to net sales and \$3 million in losses to the Company's income before income tax, including acquired intangible asset amortization, transaction and integration costs for the period between the date of acquisition and January 31, 2023.

If each acquisition had been completed on the first day of fiscal 2022, the Company's unaudited proforma net sales would be \$14,865 million and \$13,464 million for the six months ended January 31, 2023 and 2022, respectively. The impact on income before income tax in both the six months ended January 31, 2023 and 2022, including additional amortization, transaction costs and integration costs would not be material. These unaudited pro-forma results do not necessarily represent financial results that would have been achieved had the acquisition actually occurred on August 1, 2021.

The net outflow of cash related to business acquisitions is as follows:

(In millions)	Six months ended January 31, 2023
Purchase consideration	\$179
Cash, cash equivalents and bank overdrafts acquired	—
Cash consideration paid, net of cash acquired	179
Deferred and contingent consideration ⁽¹⁾	12
Net cash outflow in respect of the purchase of businesses	<u>\$191</u>

(1) Included in other financing activities in the Consolidated Statements of Cash Flows.

Note 13: Related party transactions

For the three and six month periods ended January 31, 2023 and 2022, the Company purchased \$6 million and \$13 million, respectively, compared with \$5 million and \$11 million, respectively, of delivery, installation and related administrative services from companies that are, or are indirect wholly-owned subsidiaries of companies that are, controlled or significantly influenced by a Ferguson non-executive director. No material amounts are due to such companies. The services are purchased on an arm's-length basis.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Our management’s discussion and analysis of financial condition and results of operations (“MD&A”) is intended to convey management’s perspective regarding the Company’s operational and financial performance for the three and six month periods ended January 31, 2023 and 2022, respectively. This MD&A should be read in conjunction with the unaudited condensed consolidated financial statements and related notes appearing in “Item 1. Financial Statements” of this Quarterly Report (the “Condensed Consolidated Financial Statements”) and the consolidated financial statements and related notes in “Item 8. Financial Statements and Supplementary Data” of our Annual Report.

The following discussion contains trend information and forward-looking statements. Actual results could differ materially from those discussed in these forward-looking statements, as well as from our historical performance, due to various factors, including, but not limited to, those referred to or discussed in “Risk Factors” and “Cautionary Note Regarding Forward-Looking Statements” and elsewhere in this Quarterly Report.

Overview

Ferguson is a value-added distributor in North America providing expertise, solutions and products from infrastructure, plumbing and appliances to HVAC, fire, fabrication and more. Ferguson is headquartered in the U.K., with its operations and associates solely focused on North America and managed from Newport News, Virginia.

The following table presents highlights of the Company’s performance for the periods:

(In millions, except per share amounts)	Three months ended		Six months ended	
	January 31,		January 31,	
	2023	2022	2023	2022
Net sales	\$6,825	\$6,508	\$14,756	\$13,311
Income from continuing operations	374	436	969	971
Earnings per share from continuing operations - diluted	1.80	1.97	4.64	4.38
Net cash provided by operating activities of continuing operations			1,175	229
Supplemental non-GAAP financial measures:⁽¹⁾				
Adjusted operating profit	582	588	1,446	1,355
Adjusted earnings per share - diluted	1.91	1.93	4.87	4.43

(1) The Company uses certain non-GAAP measures, which are not defined or specified under U.S. GAAP. See the section titled “[Non-GAAP Reconciliations and Supplementary Information](#).”

For the second quarter of fiscal 2023, net sales increased by 4.9% compared to the second quarter of fiscal 2022, primarily due to price inflation (approximately 10%), as well as incremental revenue from acquisitions, partially offset by lower sales volume.

For the second quarter of fiscal 2023, income from continuing operations decreased by 14.2% compared to the second quarter of fiscal 2022. This decline was primarily driven by higher selling, general & administrative costs (“SG&A”), interest expense and income tax expense, partially offset by an increase in gross profit compared to the prior year. Adjusted operating profit decreased by 1.0% in the second quarter of fiscal 2023, reflecting the increase in SG&A, partially offset by higher gross profit compared to the prior year.

For the second quarter of fiscal 2023, diluted earnings per share from continuing operations was \$1.80 (adjusted diluted earnings per share: \$1.91), decreasing 8.6% compared to the prior year period (1.0% on an adjusted basis) due to lower income from continuing operations, though partially offset by the impact of share repurchases.

Net cash provided by operating activities from continuing operations increased to \$1.2 billion in the year-to-date period of fiscal 2023 compared to \$229 million in the same period of fiscal 2022, primarily reflecting improved working capital management, particularly inventory and receivables.

Results of Operations

(In millions)	Three months ended		Six months ended	
	January 31,		January 31,	
	2023	2022	2023	2022
Net sales	\$6,825	\$6,508	14,756	13,311
Cost of sales	(4,763)	(4,519)	(10,273)	(9,195)
Gross profit	2,062	1,989	4,483	4,116
Selling, general and administrative expenses	(1,432)	(1,362)	(2,941)	(2,676)
Depreciation and amortization	(81)	(72)	(162)	(146)
Operating profit	549	555	1,380	1,294
Interest expense, net	(47)	(22)	(88)	(49)
Other expense, net	(7)	(1)	(5)	(2)
Income before income taxes	495	532	1,287	1,243
Provision for income taxes	(121)	(96)	(318)	(272)
Income from continuing operations	\$374	\$436	\$969	\$971

Net sales

Net sales were \$6.8 billion in the second quarter of fiscal 2023, an increase of \$0.3 billion, or 4.9%, compared to the same period in fiscal 2022. The increase in net sales was primarily driven by price inflation of approximately 10%, as well as a 2.6% increase in sales from acquisitions, partially offset by lower sales volume. The Company's sales growth was driven by its United States segment, growing 5.4%, mainly due to strong growth in the non-residential end markets, along with a slight increase in growth in residential markets, compared to the prior year period. For further discussion on the Company's net sales, see the Segment Results section below.

Net sales were \$14.8 billion in the year-to-date period of fiscal 2023, an increase of \$1.4 billion, or 10.9%, compared to the same period in fiscal 2022. The increase in net sales was primarily driven by price inflation of approximately 13%, as well as a 2.7% increase in sales from acquisitions, partially offset by lower sales volume. For further discussion on the Company's net sales, see the Segment Results section below.

Gross Profit

Gross profit was \$2.1 billion in the second quarter of fiscal 2023, an increase of \$0.1 billion, or 3.7%, compared to the same period in fiscal 2022, reflecting increased net sales. Gross profit as a percentage of sales was 30.2% and 30.6% in the second quarters of fiscal 2023 and fiscal 2022, respectively. The decrease of 0.4% primarily reflected the price realization benefit in the prior year period due to price inflation which exceeded the weighted average cost of inventory sold.

Gross profit was \$4.5 billion in the year-to-date period of fiscal 2023, an increase of \$0.4 billion, or 8.9%, compared to the same period in fiscal 2022. Gross profit as a percentage of sales was 30.4% and 30.9% in the year-to-date period of fiscal 2023 and fiscal 2022, respectively. The factors impacting the year-to-date comparison were largely the same as those noted above for the quarter.

Selling, general and administrative expenses

SG&A expenses were \$1.4 billion in the second quarter of fiscal 2023, an increase of \$70 million, or 5.1%, compared to the same period in fiscal 2022. SG&A as a percentage of sales was 21.0% and 20.9% in the second quarter of fiscal 2023 and fiscal 2022, respectively. The increase in SG&A as a percent of sales reflects the incremental operating costs from acquisitions and increased infrastructure, partially offset by the operating cost leverage resulting from the Company managing its labor base relative to sales growth compared with the prior year.

SG&A expenses were \$2.9 billion in the year-to-date period of fiscal 2023, an increase of \$0.3 billion, or 9.9%, compared to the same period in fiscal 2022. SG&A as a percentage of sales was 19.9% and 20.1% in the year-to-date period of fiscal 2023 and fiscal 2022, respectively. The decrease in SG&A as a percent of sales reflects operating cost leverage resulting from the Company managing its labor base relative to sales growth, partially offset by incremental operating costs from acquisitions and increased infrastructure costs compared to the prior year.

Net interest expense

Net interest expense was \$47 million in the second quarter of fiscal 2023 compared to \$22 million in the second quarter of fiscal 2022. In the year-to-date periods, net interest expense was \$88 million in fiscal 2023 compared with \$49 million in fiscal 2022. The change in net interest expense in both year-over-year comparisons was primarily due to an increase in average debt related to the Company's \$1.0 billion senior notes offering in the third quarter of fiscal 2022 and the \$500 million of term loans entered into during the first quarter of fiscal 2023, and to a lesser extent, increased interest rates on the Company's variable rate debt.

Income tax

Income tax expense was \$121 million for the second quarter of fiscal 2023, an increase of \$25 million, or 26.0%, compared to the same period in fiscal 2022. In the year-to-date period of fiscal 2023, income tax expense was \$318 million, an increase of \$46 million, or 16.9%, compared to the same period in fiscal 2022. The Company's effective tax rates attributable to continuing operations were 24.4% and 18.0% for the second quarters of fiscal 2023 and 2022, respectively. The effective tax rates were 24.7% and 21.9% for the year-to-date periods of fiscal 2023 and 2022, respectively. For each of the year-over-year comparisons, the increase in the effective tax rate was due to discrete tax benefits recorded in fiscal 2022.

Net income

Income from continuing operations for the second quarter of fiscal 2023 was \$374 million, a decrease of \$62 million, or 14.2%, compared to the same period in fiscal 2022 due to the elements described above.

Income from continuing operations for the year-to-date period of fiscal 2023 was \$969 million, a decrease of \$2 million, or 0.2%, compared to the same period in fiscal 2022 due to the elements described above.

Segment results

United States

(In millions)	Three months ended		Six months ended	
	January 31,		January 31,	
	2023	2022	2023	2022
Net sales	\$6,504	\$6,172	\$14,036	\$12,590
Adjusted operating profit	579	576	1,424	1,328

Net sales for the United States segment were \$6.5 billion in the second quarter of fiscal 2023, an increase of \$0.3 billion, or 5.4%, compared to the prior year period. The increase in net sales was primarily driven by price inflation of approximately 10%, as well as a 2.8% increase in sales from acquisitions. These increases were partially offset by lower volume. Growth in non-residential markets was 10.7%, with growth in each of civil/infrastructure, commercial and industrial end markets. Growth in residential markets, which comprise over half of segment revenue, was 1.0%, driven by resilient RMI sales, partially offset by a reduction in new construction due to slowing housing starts and permit activity.

On a year-to-date basis, net sales for the United States segment were \$14.0 billion in fiscal 2023, an increase of \$1.4 billion, or 11.5%, compared to the prior year period. The increase in net sales was primarily driven by price inflation of approximately 13%, as well as a 2.8% increase in sales from acquisitions. These increases were partially offset by lower volume. Growth in non-residential markets was 15.5%, with growth in each of civil/infrastructure, commercial and industrial end markets. Growth in residential markets was 8.1%, driven by strong RMI sales and moderate growth in new construction in light of slowing housing starts and permit activity.

The following table illustrates net sales growth by end market:

	% of United States segment net sales		United States segment net sales growth	
	Three month ended	Six months ended	Three month ended	Six months ended
	January 31, 2023	January 31, 2023	January 31, 2023	January 31, 2023
Residential	53 %	53 %	1.0 %	8.1 %
Non-residential	47	47	10.7	15.5
Total			5.4 %	11.5 %

Adjusted operating profit for the United States segment was \$579 million for the second quarter of fiscal 2023, an increase of \$3 million, or 0.5%, compared to the same prior year period, primarily reflecting the operating cost leverage resulting from the Company managing its labor base relative to sales growth, as well as higher gross profit compared to the prior year, partially offset by the incremental operating costs from acquisitions and increased infrastructure costs.

On a year-to-date basis, adjusted operating profit for the United States segment was \$1,424 million in fiscal 2023, an increase of \$96 million, or 7.2%, compared to the same prior year period, primarily due to net sales growth and operating cost leverage.

Canada

(In millions)	Three months ended		Six months ended	
	January 31,		January 31,	
	2023	2022	2023	2022
Net sales	\$321	\$336	\$720	\$721
Adjusted operating profit	14	23	47	57

Net sales for the Canada segment were \$321 million in the second quarter of fiscal 2023, a decrease of \$15 million, or 4.5%, compared to the same period in fiscal 2022. This decrease in net sales was primarily due to a 6.3% impact of foreign currency exchange rates and lower volumes, as well as a 1.2% impact due to fewer sales days. These impacts were partially offset by sales price inflation of approximately 9%.

On a year-to-date basis, net sales for the Canada segment in fiscal 2023 were about even with the prior year. The factors impacting the year-over year comparison were largely the same as for the quarter. The impact of price inflation was approximately 11%.

Adjusted operating profit for the Canada segment in the second quarter and year-to-date period of fiscal 2023 decreased compared to the same period in the prior year due to higher operating costs.

Non-GAAP Reconciliations and Supplementary Information

The Company reports its financial results in accordance with U.S. GAAP. However, the Company believes certain non-GAAP financial measures provide users of the Company's financial information with additional meaningful information to assist in understanding financial results and assessing the Company's performance from period to period. These non-GAAP measures include adjusted operating profit, adjusted net income, adjusted earnings per share ("adjusted EPS") - basic and adjusted EPS - diluted. Management believes these measures are important indicators of operations because they exclude items that may not be indicative of our core operating results and provide a better baseline for analyzing trends in our underlying businesses, and they are consistent with how business performance is planned, reported and assessed internally by management and the Company's Board of Directors. Such non-GAAP adjustments include amortization of acquired intangible assets, discrete tax items, and any other items that are non-recurring. Non-recurring items may include business restructuring charges, corporate restructuring charges, which includes costs associated with the Company's listing in the United States, gains or losses on the disposals of businesses which by their nature do not reflect primary operations, as well as certain other items deemed non-recurring in nature and/or that are not a result of the Company's primary operations. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names. These non-GAAP financial measures should not be considered in isolation or as a substitute for results reported under U.S. GAAP. These non-GAAP financial measures reflect an additional way of viewing aspects of operations that, when viewed with U.S. GAAP results, provide a more complete understanding of the business. The Company strongly encourages investors and shareholders to review Company financial statements and publicly filed reports in their entirety and not to rely on any single financial measure.

Reconciliation of net income to adjusted operating profit

The following table reconciles net income (U.S. GAAP) to adjusted operating profit (non-GAAP):

(In millions)	Three months ended		Six months ended	
	January 31,		January 31,	
	2023	2022	2023	2022
Net income	\$374	\$436	\$969	\$996
Income from discontinued operations (net of tax)	—	—	—	(25)
Provision for income taxes	121	96	318	272
Interest expense, net	47	22	88	49
Other expense, net	7	1	5	2
Operating profit	549	555	1,380	1,294
Corporate restructurings ⁽¹⁾	—	6	—	7
Amortization of acquired intangibles	33	27	66	54
Adjusted operating profit	\$582	\$588	\$1,446	\$1,355

- (1) For the three and six months ended January 31, 2022, corporate restructuring costs related to the incremental costs of the Company's listing in the United States.

Reconciliation of net income to adjusted net income and adjusted EPS

The following table reconciles net income (U.S. GAAP) to adjusted net income and adjusted EPS – basic and adjusted EPS – diluted (non-GAAP):

(In millions, except per share amounts)	Three months ended		Six months ended	
	January 31,		January 31,	
	2023	2022	2023	2022
Net income	\$374	\$436	\$969	\$996
Income from discontinued operations (net of tax)	—	—	—	(25)
Income from continuing operations	374	436	969	971
Corporate restructurings ⁽¹⁾	—	6	—	7
Amortization of acquired intangibles	33	27	66	54
Discrete tax adjustments ⁽²⁾	(3)	(39)	(3)	(39)
Tax impact on non-GAAP adjustments ⁽³⁾	(8)	(4)	(16)	(10)
Adjusted net income	\$396	\$426	\$1,016	\$983
Adjusted earnings per share:				
Basic	\$1.91	\$1.94	\$4.89	\$4.45
Diluted	\$1.91	\$1.93	\$4.87	\$4.43
Weighted average number of shares outstanding:				
Basic	207.1	220.0	207.9	220.7
Diluted	207.8	221.2	208.8	222.0

- (1) For the three and six months ended January 31, 2022, corporate restructuring costs related to the incremental costs of the Company's listing in the United States.
- (2) For the three and six months ended January 31, 2023, discrete tax items primarily related to adjustments in connection with amended returns. For the three and six months ended January 31, 2022, the discrete tax adjustments primarily related to prior year tax adjustments, including amended tax return items.
- (3) Represents the tax impact of non-GAAP adjustments, including the tax impact on the amortization of acquired intangibles.

Liquidity and Capital Resources

The Company believes its current cash position coupled with cash flow anticipated to be generated from operations and access to capital should be sufficient to meet its operating cash requirements for the next 12 months and will also enable the Company to invest and fund acquisitions, capital expenditures, dividend payments, share repurchases, required debt payments and other contractual obligations through the next several fiscal years. The Company also anticipates that it has the ability to obtain alternative sources of financing, if necessary.

The Company's material cash requirements include contractual and other obligations arising in the normal course of business. These obligations primarily include debt service and related interest payments, operating lease obligations, share repurchase commitments and other purchase obligations. The nature and composition of such cash requirements have not materially changed from those disclosed in the Annual Report other than items updated in this Quarterly Report.

Cash flows

As of January 31, 2023 and 2022, the Company had cash and cash equivalents of \$597 million and \$771 million, respectively.

As of January 31, 2023, the Company's total debt was \$4.0 billion. In addition, the Company had \$2.7 billion of available liquidity, comprising readily available cash to fund operations of \$499 million, excluding cash of \$98 million in Ferguson Insurance Limited, primarily used to collateralize letters of credit, and \$2.2 billion of undrawn facilities. The Company anticipates that it will be able to meet its debt obligations as they become due.

Cash flows from operating activities

(In millions)	Six months ended	
	January 31,	
	2023	2022
Net cash provided by operating activities	\$1,171	\$229

Net cash provided by operating activities was \$1,171 million for the year-to-date period of fiscal 2023 compared to \$229 million in the same period of fiscal 2022. The \$942 million increase was primarily driven by improved working capital management, particularly inventory and receivables, compared to the same period in fiscal 2022 when the Company made strategic investments in working capital to better serve customers during times of significant supply chain disruption. These improvements were partially offset by a decrease in accounts payable, due to the timing of vendor payments, as well as higher cash paid for income taxes.

Cash flows from investing activities

(In millions)	Six months ended	
	January 31,	
	2023	2022
Net cash used in investing activities	(\$425)	(\$347)

Net cash used in investing activities was \$425 million for the year-to-date period of fiscal 2023 compared to \$347 million in the same period of fiscal 2022.

During the year-to-date periods of fiscal 2023 and fiscal 2022, the Company invested \$179 million and \$245 million, respectively, in new acquisitions.

Capital expenditure totaled \$242 million and \$122 million in the year-to-date periods of fiscal 2023 and fiscal 2022, respectively. These investments were primarily for strategic projects to support future growth, such as new market distribution centers, our branch network and new technology.

Cash flows from financing activities

(In millions)	Six months ended	
	January 31,	
	2023	2022
Net cash used in financing activities	(\$906)	(\$372)

Net cash used in financing activities was \$906 million in the year-to-date period of fiscal 2023 compared to \$372 million in the year-to-date period of fiscal 2022.

Dividends paid to shareholders were \$403 million and \$364 million in the year-to-date periods of fiscal 2023 and fiscal 2022, respectively. Beginning with its declaration in December 2022, the Company has transitioned to and intends to maintain a quarterly dividend distribution schedule, subject to approval by the Company's Board of Director in future periods.

Share repurchases under the Company's announced share repurchase program were \$564 million and \$417 million in the year-to-date periods of fiscal 2023 and fiscal 2022, respectively. The Company has not made any purchases in fiscal 2023 in connection with its Employee Benefit Trusts compared with \$92 million in the first six months of fiscal 2022.

The proceeds from debt, net of repayments, were \$70 million and \$500 million in the year-to-date periods of fiscal 2023 and fiscal 2022, respectively. In the first quarter fiscal 2023, the Company borrowed \$500 million of term loans, partially offset by the repayment of \$250 million due to the maturity of certain Private Placement Notes (as defined below) and \$180 million in net repayments of the Receivables Facility. In the first six months of fiscal 2022, the Company borrowed \$500 million under the Receivables Facility.

Reinvestment of unremitted earnings

As disclosed in our Annual Report, we consider foreign earnings of specific subsidiaries to be indefinitely reinvested. If at some future date, the Company ceases to be permanently reinvested in these foreign subsidiaries, the Company may be subject to foreign withholding and other taxes on these undistributed earnings and may need to record a deferred tax liability for any outside basis difference on these specific foreign subsidiaries. The potential impact in connection with these items has not materially changed since the end of fiscal 2022.

Debt facilities

The following section summarizes certain material provisions of our debt facilities. The following description is only a summary, does not purport to be complete and is qualified in its entirety by reference to the documents governing this indebtedness.

(In millions)	As of	
	January 31, 2023	July 31, 2022
Total debt	\$3,991	\$3,929

Private Placement Notes

In June 2015 and November 2017, Wolseley Capital, Inc., a wholly-owned subsidiary of the Company, privately placed fixed rate notes in an aggregate principal amount of \$800 million and \$355 million, respectively (collectively, the “Private Placement Notes”). In September 2022, the Company repaid \$250 million in maturing fixed rate notes.

Unsecured Senior Notes

Ferguson Finance plc, a wholly-owned subsidiary of the Company, has issued \$2.35 billion in various issuances of unsecured senior notes (collectively, the “Unsecured Senior Notes”).

The Unsecured Senior Notes are fully and unconditionally guaranteed on a direct, unsubordinated and unsecured senior basis by the Company and generally carry the same terms and conditions with interest paid semi-annually. The Unsecured Senior Notes may be redeemed, in whole or in part, (i) at 100% of the principal amount on the notes being redeemed plus a “make-whole” prepayment premium at any time prior to three months before the maturity date (the “Notes Par Call Date”) or (ii) after the Notes Par Call Date at 100% of the principal amount of the notes being redeemed plus accrued and unpaid interest on the principal being redeemed. The Unsecured Senior Notes include covenants, subject to certain exceptions, which include limitations on the granting of liens and on mergers and acquisitions.

Term Loan

In October 2022, the Company and Ferguson UK entered into, and Ferguson UK borrowed in full, the \$500 million of term loans available under the Term Loan Agreement. The proceeds of the term loans may be used for general corporate purposes. The Term Loan Agreement will mature on October 7, 2025.

Revolving Credit Facility

The Company maintains a Revolving Facility with aggregate total available credit commitments of \$1.35 billion. The benchmark rate applicable to U.S. dollar denominated loans is Term SOFR (as defined in the Revolving Facility Agreement) plus a credit spread adjustment of 10 basis points.

As of January 31, 2023, no borrowings were outstanding under the Revolving Facility.

Receivables Securitization Facility

The Company maintains a Receivables Facility with an aggregate total available amount of \$1.1 billion, including a swingline for up to \$100 million in same day funding. The Company has the ability to increase the aggregate total available amount under the Receivables Facility up to a total of \$1.5 billion from time to time, subject to lender participation. The benchmark rate is Term SOFR (as defined in the Receivables Facility) plus a credit spread adjustment of 10 basis points.

As of January 31, 2023, \$275 million in borrowings were outstanding under the Receivables Facility.

Bilateral Loan

The Company previously maintained the Bilateral Loan Facility, which was an unsecured \$250 million 364-day revolving facility governed by the Bilateral Loan Agreement. Effective December 29, 2022, the Company voluntarily cancelled the Bilateral Loan Facility in accordance with the terms of the Bilateral Loan Agreement. At the time of cancellation, no amounts were outstanding under the Bilateral Loan Agreement.

The Company was in compliance with all debt covenants for all of these debt obligations and facilities that were in effect as of January 31, 2023.

See note 5 to the Condensed Consolidated Financial Statements for further details regarding the Company's debt, as well as notes to the consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" of the Company's Annual Report.

There have been no significant changes to the Company's policies on accounting for, valuing and managing the risk of financial instruments during the second quarter of fiscal 2023.

Critical accounting policies and estimates

There have been no material changes to our critical accounting policies as disclosed in the Annual Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to the quantitative and qualitative disclosures about market risk disclosed in our Annual Report.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has carried out an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Exchange Act as of January 31, 2023. The term "disclosure controls and procedures" means controls and other procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well conceived and operated, can only provide reasonable assurance that the objectives of the disclosure controls and procedures are met.

Based on their evaluation as of the end of the period covered by this Quarterly Report, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended January 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company is from time to time a party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of business. With respect to such lawsuits, claims and proceedings, the Company records reserves when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. The Company does not expect any of its pending legal proceedings to have a material adverse effect on its results of operations, financial position or cash flows. The Company maintains liability insurance for certain risks that are subject to certain self-insurance limits.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed in “Risk Factors” in our Annual Report, which could materially affect our business, financial condition or future results. Except as set forth below, there have been no material changes in our risk factors from those disclosed in our Annual Report.

The obligations associated with being a public company in the United States require significant resources and management attention and increase our legal and financial compliance costs, and changing laws, regulations and standards are creating uncertainty for United States public companies.

As a public company with a recent U.S. listing of our ordinary shares in the United States, we continue to incur legal, accounting and other expenses that we did not previously incur. We are subject to the reporting requirements of the Exchange Act and the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley Act”), the listing requirements of the New York Stock Exchange (“NYSE”), and other applicable securities rules and regulations. The Exchange Act requires that we file annual and other reports with respect to our business, financial condition and results of operations. The Sarbanes-Oxley Act requires, among other things, that we establish and maintain effective internal controls and procedures for financial reporting. In addition, as of January 31, 2023, we have determined that we no longer qualify as a foreign private issuer, as defined under the Exchange Act. As a result, effective as of August 1, 2023, we will no longer be eligible to use the rules designed for foreign private issuers and we will be considered a U.S. domestic issuer. We will be required to comply with, among other things, U.S. proxy requirements and Regulation FD and our officers, directors and principal shareholders will become subject to the beneficial ownership reporting and short-swing profit recovery requirements in Section 16 of the Exchange Act. We will also no longer be eligible to rely upon exemptions from corporate governance requirements that are available to foreign private issuers or to benefit from other accommodations for foreign private issuers under the rules of the SEC or NYSE and may be required to modify certain of our policies to comply with good governance practices applicable to U.S. domestic issuers.

The establishment and the maintenance of the corporate infrastructure demanded of a United States public company may, in certain circumstances, divert management’s attention from implementing our growth strategy, which could prevent us from improving our business, financial condition and results of operations. We have made, and will continue to make, changes to our internal controls and procedures for financial reporting and accounting systems in order to meet our reporting obligations as a public company in the United States with U.S. domestic issuer status. However, the measures we take may not be sufficient to satisfy these obligations. In addition, compliance with these rules and regulations have increased, and following loss of foreign private issuer status will further increase, our legal and financial compliance costs and makes some activities more time-consuming and costly. These additional obligations may have a material adverse impact on our business, financial condition, results of operations and cash flow.

In addition, changing laws, regulations and standards relating to corporate governance, ESG matters, and public disclosure are creating uncertainty for public companies in the United States, increasing legal and financial compliance costs and making some activities more time-consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We have invested, and expect to continue to invest, resources to comply with evolving laws, regulations and standards, and this investment may result in increased operating expenses and a diversion of management’s time and attention from sales-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business, financial condition, results of operations and cash flow could be adversely affected.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer purchases of equity shares

The following table presents the number and average price of shares purchased in each month of the second quarter of fiscal 2023:

(In millions, except share count and per share amount)	(a) Total Number of Shares Purchased	(b) Average Prices Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Program⁽¹⁾	(d) Maximum Value of Shares that May Yet To Be Purchased Under the Program⁽¹⁾
November 1 - November 30, 2022	446,609	\$110.87	446,609	\$537
December 1 - December 31, 2022	470,898	123.69	470,898	478
January 1 - January 31, 2023	683,916	138.16	683,916	384
	<u>1,601,423</u>		<u>1,601,423</u>	

(1) In September 2021, the Company announced a program to repurchase up to \$1.0 billion of shares. In March 2022 and September 2022, the Company announced an increase in its share repurchase program of \$1.0 billion and \$0.5 billion, respectively. As of January 31, 2023, the Company has completed \$2.1 billion of the total announced \$2.5 billion repurchase program. The Company is currently purchasing shares under an irrevocable and non-discretionary arrangement with \$139 million in accrued repurchases remaining, which is recorded as a current liability in the condensed consolidated balance sheet.

Item 6. Exhibits

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report.

(a) Exhibits

Exhibit	Description
10.1*	<u>Omnibus Amendment to Receivables Purchase Agreement and Purchase and Contribution Agreement, dated December 29, 2022, by and among, Ferguson plc, Ferguson Receivables, LLC, as the Seller, Ferguson Enterprises, LLC, as Servicer and an Originator, Energy & Process Corporation, HP Products Corporation, DBS Holdings, Inc. and Ferguson Fire & Fabrication, Inc., as Originators, the conduit purchasers from time to time party thereto, the committed purchasers from time to time party thereto, the letter of credit banks from time to time party thereto and Royal Bank of Canada, as administrative agent.</u>
10.2*	<u>Omnibus Amendment to Receivables Purchase Agreement and Purchase and Contribution Agreement, dated February 10, 2023, by and among, Ferguson plc, Ferguson Receivables, LLC, as the Seller, Ferguson Enterprises, LLC, as Servicer and an Originator, Energy & Process Corporation, HP Products Corporation, DBS Holdings, Inc. and Ferguson Fire & Fabrication, Inc., as Originators, the conduit purchasers from time to time party thereto, the committed purchasers from time to time party thereto, the letter of credit banks from time to time party thereto and Royal Bank of Canada, as administrative agent.</u>
31.1*	<u>Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1**	<u>Certification of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2**	<u>Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS*	Inline XBRL Instance Document—this instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Filed herewith

** Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

March 8, 2023

Ferguson plc

/s/ William Brundage

Name: William Brundage

Title: Chief Financial Officer

(Principal Financial Officer and Duly
Authorized Officer)