

Ferguson Enterprises (FERG)

Investment Analysis Report

September 10, 2026

Analysis struck at the closing price of \$234.33 on 31 July 2026. Updated for the second quarter reported on 10 August 2026 and for events to 10 September 2026, in the update section that follows the executive summary.

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Executive Summary

Ferguson Enterprises is the largest distributor of plumbing, heating, cooling, waterworks and industrial pipe products in North America, with \$31.3 billion of calendar 2025 net sales across roughly 1,729 branches and approximately 35,000 associates. It has been assembled over four decades from more than fifty acquisitions of family businesses, and since July 2026 it has been solely listed on the New York Stock Exchange, joining the S&P 500 on 5 August 2026.

The central fact about Ferguson's economics is that its gross margin does almost nothing and its operating margin does everything. Across the five years to financial 2025, gross margin moved within a band of 32 basis points while adjusted operating margin moved 115. That window includes the supply constrained years of financial 2021 and 2022, when pricing latitude was unusually wide, and the annual band conceals a quarterly range of 29.7% to 31.7%; neither qualification changes the shape of the relationship, and the peer comparison in the body is struck on the same window for every company. The difference is the absorption of a cost base that exists to keep one promise: that a contractor whose job has stopped can get the part today. Hired against expected throughput and unable to flex inside a quarter, that cost base is why a nine percent operating margin is a barrier to entry rather than evidence of weakness. An entrant must carry it to the same service standard before the demand arrives, with 900 basis points of margin to fund it.

This report establishes that the mechanism is a threshold rather than a rate, which changes how the business should be modeled. A cost base that inflates by roughly \$270 million a year whatever revenue does requires close to three percent of revenue growth before any margin expansion is available. Ferguson cleared that bar once in four years, in financial 2022, when flow through arrived at 14.9%, at the top of management's guided 11% to 14% range; in the three years since, revenue grew 4.1%, fell 0.3% and grew 3.8%, and adjusted operating margin fell in every one of them. **Margin expansion at Ferguson is not a lever. It is what clearing a growth threshold produces, and the company has not cleared it since financial 2022.** That is a cyclical statement rather than a structural indictment: margin is very difficult to expand when volume growth is weak, and residential construction has been weak throughout. The point is not that Ferguson can no longer expand margin, but that a model pairing low revenue growth with steady margin expansion is internally inconsistent: margin recovery arrives with volume, not ahead of it.

It has taken share regardless. **Ferguson has outgrown its end market by 300 to 400 basis points a year for three years, into a market flat to modestly negative in volume terms,** corroborated from outside the company by construction spending data.

That position is built branch by branch, not bought with the balance sheet, and the company's own disclosure demonstrates it. In financial 2023 Ferguson reported its market share in each of seven customer groups: 25% in Fire and Fabrication and 22% in Waterworks, against 5% in HVAC and 1% in Facilities Supply, in the same year, in the same country, funded by the same balance sheet and buying from the same suppliers. If the advantage came from being large, those seven numbers would look broadly alike, because corporate scale is available to every category equally. They do not, so it does not. What varies between them is how much local presence is worth, and where the product is commoditized and bought on a planned schedule it is worth little: four decades of trying has not moved Ferguson's share in

those categories. **The moat is real, measurable, and bounded**, and the boundary tells you which growth ambitions are plausible.

Four of the six growth pillars in the framing that shaped this work required correction. The widely repeated \$140 million data center project is over \$40 million of revenue plus over \$100 million of open orders, which are different things and are kept apart here. Own brand penetration has advanced at roughly 30 basis points a year rather than the doubling implied, contributing on the order of nine basis points of gross margin annually, which is not observable in a business whose five year gross margin range is 32 basis points. The claim that acquisition multiples compress by two to three turns through synergies rests on two figures Ferguson printed side by side in a January 2022 investor presentation and has repeated in no filing and on no earnings call since: the figures are the company's, the arithmetic built from them is the reader's. And the claim that non residential construction excluding the secular categories is declining in line with historical downturns is contradicted by Census data, which puts the current decline at 1.1% nominal against 46.4% in 2008 to 2011.

The pillar the framing leads with has no current traction. HVAC customer group revenue fell 1% in calendar 2025 against a plus 10% comparative. The category is not growing for anybody, with Watsco down 4.98% in the same period, so this is demand weakness rather than share transfer. But Home Depot's SRS Distribution entered wholesale HVAC by acquisition in May 2026, more than 650 dual trade counters have been built with no revenue per counter metric ever disclosed, and at the analysis date the pillar remained a coherent prospective thesis that revenue had not yet validated. **It grew 11% in the quarter reported after this analysis was struck**, which is the first evidence of traction and is discussed in the update section.

On the risk side, this report retrieved a precedent that sits outside every other source on the company. Ferguson's resilience case has rested on financial 2020, a one quarter shock followed by a housing boom. The relevant precedent is 2008 to 2011, when as Wolseley plc its US business lost **18.6% of revenue and 39.7% of trading profit in a single year**, a deleverage ratio of 2.1 times, alongside roughly 900 branch closures, 17,000 job losses and a £1 billion rights issue. The honest structural rebuttal is that the business that produced the worst of that damage, Stock Building Supply, was sold in 2009. Applying the 2009 experience to today's balance sheet, peak leverage reaches 1.06 times clean, 1.45 times with FloWorks and 1.77 times with FloWorks plus Wolseley scaled exceptional charges, **all three inside Ferguson's own 1.0 to 2.0 times target range: it clears its own worst historical stress without equity.**

On valuation, this is a quality business priced for its own algorithm to work, with the operating leverage as the swing factor. At the 31 July 2026 close of \$234.33, holding operating margin flat forever so that the operating leverage argument delivers nothing, **the price requires 6.15% annual revenue growth**, the bottom of management's own 6% to 11% algorithm. **But growth and margin substitute for one another, and that flat margin case is the harshest corner rather than the central reading.** If margin expands by 20 basis points a year, the middle of management's own 10 to 30 basis point ambition, **the price requires only 4.48% revenue growth**, below both guidance and consensus; at 30 basis points a year, 3.70%. **The price is demanding on growth alone and undemanding the moment the operating leverage does any work at all**, which is why the base case, at roughly 16 basis points and 6.2% growth, clears the bar with about a point and a half to spare.

Ferguson trades at its own four year median multiple on both earnings and EBITDA, and three of the four events that might plausibly have re-rated it moved nothing. The base case returns



11.1% a year against a 9.5% index alternative, with the multiple contributing nothing. That excess of 1.6 percentage points is real and it is thin, and it depends on which of two equally sourced historical medians is used for the exit multiple: **on the longer of the two windows, the base case does not beat the index**. A bear case returns minus 3.5%, and a properly compressed bear multiple takes that closer to minus 10%.

This analysis is struck at 31 July 2026 and does not incorporate Ferguson's second quarter results, reported on 10 August 2026. The section that follows sets out what that print did to the argument, in short: it confirmed the margin mechanism, it gave the HVAC pillar its first quarter of real traction, guidance was raised, and the shares have since traded below the price used here.

Update: The Second Quarter, and What It Changes

The analysis in this report is struck at the closing price of \$234.33 on 31 July 2026 and has not been re-run. Ferguson reported its second quarter on 10 August 2026, closed the FloWorks acquisition on 31 August, and the shares have since traded down to \$223.22 at the close on 9 September. This section sets out what that print did to the argument. The body of the report that follows is unchanged.

What the quarter said

Net sales of **\$8.8 billion, up 4.6%**, of which 3.8% was organic and 1.0% acquisitions. Gross margin of **31.0%, down 20 basis points**. Adjusted operating profit of **\$932 million at a 10.7% margin, down 10 basis points**. Adjusted diluted earnings per share of **\$3.39, up 5.3%**. Across the first half, net sales of \$16.2 billion up 4.2%, with the adjusted operating margin up 10 basis points to 9.7%.

Guidance was raised. Revenue growth moved from low-to-mid single digit to **mid single digit**, and the adjusted operating margin range narrowed upward from 9.4% to 9.8% to **9.5% to 9.8%**. Capital expenditure guidance rose to \$375 million to \$425 million. Net debt to adjusted EBITDA stood at 1.3 times before FloWorks closed.

What it confirms

The central analytical claim of this report was tested by this print and held. The report argues that Ferguson's margin is a threshold rather than a rate: that roughly three percent of revenue growth is consumed by cost inflation before any margin expansion becomes available, and that at growth in the low-to-mid single digits the company can hold serve and little more.

Second quarter revenue grew 4.6% and the adjusted operating margin fell 10 basis points. First half revenue grew 4.2% and the margin rose 10 basis points. **At this rate of growth Ferguson's margin is flat to within a rounding error, in both directions, which is precisely what the mechanism described in the Company Overview predicts.** A reader who wants to test the thesis cheaply now has a clean out-of-sample observation, and it went the way the report said it would.

Two other things behaved as described. Price inflation decelerated to low single digits, with commodities flat and PVC down double digits, so the growth was not a pricing artifact. And non-residential grew 8% against residential at 2%, extending the composition shift the report documents.

What it changes

The HVAC pillar has its first quarter of real traction, and the report's treatment of it is now too harsh.

The body of this report describes pillar one as a coherent prospective thesis that revenue had not yet validated, on the strength of HVAC customer group revenue falling 1% in calendar 2025. **In the second quarter HVAC grew 11%.** Management confirmed the 650-counter dual-trade rollout is complete and pointed to organic expansion of locations and counters, new equipment relationships and the Carrier Great Lakes and Dealers Supply acquisitions.

Two qualifications keep that in proportion. The 11% is struck against a **plus 1% comparable**, so the base was soft and part of the growth is arithmetic. And a single quarter is not a trend, particularly in a category where the report has argued that the cycle rather than the competitive position has been doing the work. **But the honest reading is that the direction has changed**, and a reader should treat the pillar as early-stage evidence rather than as infrastructure without a customer proposition. The measurement gap the report identifies remains open: Ferguson still discloses no revenue-per-counter metric, and no analyst has asked for one.

Two other customer groups moved in ways worth noting. Fire and Fabrication fell 13%, which is Ferguson's strongest competitive position at 25% share and the first material decline in it. And Waterworks grew only 3% against a 15% comparable, which is a sharp deceleration in a vector this report identifies as one of the two best in the business. Neither breaks anything. Both are worth watching, and both are the sort of thing a single quarter can misrepresent.

What else happened

FloWorks closed on 31 August 2026, funded in part by \$1.2 billion of senior notes priced on 11 August, \$700 million at 4.800% due 2029 and \$500 million at 5.600% due 2036. The report treats FloWorks as an announced but unclosed transaction and excludes it from the base case, and company guidance likewise still excludes it. That treatment is now conservative rather than uncertain: the deal is done and its contribution is ahead of both the model and the guidance.

Ferguson entered the S&P 500 on 5 August 2026 and declared a quarterly dividend of \$0.89 on the same day.

What it does to the valuation

The shares closed at **\$263.78 on the results day** and at **\$223.22 on 9 September**, which is **4.7% below the price this analysis is struck at**. The report's arithmetic is therefore conservative on price as well as on FloWorks. Re-running the same reverse calculation at the current price, and changing nothing else:

Margin path assumed	Required growth at \$234.33	Required growth at \$223.22
Flat at 9.60%, operating leverage never works	6.15%	5.17%
Plus 10 basis points a year	5.29%	4.32%
Plus 20 basis points a year	4.48%	3.51%
Plus 30 basis points a year	3.70%	2.74%
Plus 40 basis points a year	2.95%	2.00%

At \$223.22 the price requires **5.17% revenue growth with no margin expansion at all**, which is below the bottom of management's stated algorithm rather than at it, and below the mid-single-digit growth the company has just guided to. On the same base case assumptions the annualized return moves from 11.1% to **12.2%**, against the 9.5% index alternative, and the entry multiple falls to **21.1 times calendar 2025 adjusted earnings** from 22.2 times.

None of that is a recommendation and the report expresses none. It is a statement that the conclusions in the pages that follow were reached at a higher price than the one on the screen today, and that every requirement they describe is now easier to meet.

Company Overview

A contractor whose job has stopped for want of a two hundred dollar fitting is not shopping on price. He is shopping on whether the part is forty minutes away. Ferguson Enterprises exists to make the answer yes, roughly 1,729 times over across North America, and every meaningful fact about the company's economics follows from the cost of keeping that promise.

The scale is easy to state and easy to misread. Ferguson did \$31.3 billion of net sales in calendar 2025 across approximately 35,000 associates, more than a million stock keeping units, six market distribution centers and a fleet of roughly 6,200 vehicles. It is the largest participant in North American plumbing, heating, cooling, waterworks and industrial pipe distribution, assembled over four decades from more than fifty acquisitions of family businesses. Since 20 July 2026 it has been solely listed on the New York Stock Exchange, the last step in a five year migration from a London listed FTSE 100 company, and on 5 August 2026 it joined the S&P 500.

None of that explains why the business earns what it earns. The explanation sits in a single relationship between two numbers.

The margin mechanism

Across the five financial years ended 31 July 2021 to 2025, Ferguson's gross margin moved within a band of **32 basis points**, from 30.35% to 30.67%.

Two qualifications belong with that number the moment it is used. The window contains **financial 2021 and financial 2022, a supply constrained period of unusually strong residential demand** in which every distributor had more pricing latitude than normal, so it is not a neutral five years. And an annual band conceals a good deal: the same period contains quarterly gross margins from **29.7% to 31.7%**, because quarters offset within each year. Extending the series back one year to financial 2020, when gross margin was 30.0% on the company's then IFRS reporting, widens the band to roughly **70 basis points**. Neither point changes the shape of the argument, and the comparative in the next section is struck on the identical window for every peer, but the 32 basis point figure should be read as an annual measure of a favorable period rather than a universal constant. Over the same five years adjusted operating margin moved **115 basis points**, from 9.18% to 10.33%. Gross margin did almost nothing; operating margin did nearly four times as much work, and the entire difference sits in one line.

FY (to 31 July)	Net sales, \$m	Revenue growth	Adjusted operating profit, \$m	Adjusted operating margin	Adjusted operating cost ratio
2021	22,792	+14.3%	2,092	9.18%	21.45%
2022	28,566	+25.3%	2,951	10.33%	20.32%
2023	29,734	+4.1%	2,917	9.81%	20.54%
2024	29,635	-0.3%	2,824	9.53%	21.02%
2025	30,762	+3.8%	2,842	9.24%	21.43%

The operating cost ratio tracks revenue growth almost exactly. It bottomed in the year revenue grew a quarter and peaked in the year revenue barely moved. That is not a coincidence and it is

not a cost control story. It is the arithmetic of a business whose branches, trucks, warehouses and people are hired against expected throughput and cannot flex inside a quarter.

Why can they not flex? Because the promise is availability, and availability is a stocking and staffing decision taken months before the demand arrives. A branch that keeps a thin inventory and a lean counter to protect margin in a soft quarter fails the contractor the following Tuesday, and the contractor does not come back. The cost base is not overhead sitting on top of the business. It **is** the business.

Which is why a nine percent operating margin, thin against almost any industrial comparison, functions as a barrier rather than as evidence of weakness. An entrant has to carry branches, inventory and staff to trough volume service standards before the demand shows up, against roughly 900 basis points of operating margin to fund it. It cannot buy share with price, because at that margin there is no room, and it cannot buy share with service, because service is what the incumbent's fixed cost already purchased.

The right lens for a business built this way is not operating margin at all. It is gross profit per dollar of capital employed, which for Ferguson runs close to one to one, and which turns a nine percent margin into returns on capital of between 29% and 40% over the past five years. Judged on margin, Ferguson looks ordinary. Judged on what each dollar of capital earns in gross profit, it does not.

The mechanism is a threshold, not a rate

Management describes the relationship as an incremental flow through of 11% to 14%: for every additional dollar of revenue, eleven to fourteen cents reaches operating profit. That framing is correct and incomplete, because it implies a constant. The record says otherwise, and it has not been assembled anywhere else.

Each year's change in revenue against each year's change in adjusted operating profit gives the flow through Ferguson actually delivered:

FY (to 31 July)	Change in net sales, \$m	Change in adjusted operating profit, \$m	Realized flow through
2022	+5,774	+859	14.9%
2023	+1,168	-34	negative
2024	-99	-93	a 94% decremental
2025	+1,127	+18	1.6%
FY2021 to FY2025 cumulative	+7,970	+750	9.4%

In the one year of the four in which revenue grew faster than mid single digits, flow through came in at 14.9%, at the very top of the guided range. In the three years since, revenue grew 4.1%, fell 0.3% and grew 3.8%, and adjusted operating margin fell in every one of them, cumulatively 109 basis points.

The reason is arithmetic rather than execution. Ferguson's adjusted operating cost base is roughly \$6.6 billion, or about 21% of revenue, and it inflates with wages and property at between 2% and 6% a year. On that base, ordinary inflation consumes roughly \$270 million of

profit annually. At a 30.7% gross margin, covering it requires close to \$900 million of additional revenue, roughly three percent growth **before a single basis point of margin expansion is available**. Everything above that break even flows through at the guided rate. Everything below it goes backwards.

This is what the chief financial officer means when he says that in low single digit growth Ferguson can "work very hard and can kind of hold serve on operating margin." It is more precise and more useful than it first appears, and it has a consequence the market has not priced explicitly: **margin expansion at Ferguson is not a parallel lever that management can pull. It is a consequence of clearing a growth threshold, and the company has not cleared it since financial 2022.**

One qualification matters and it cuts the company's way. Ferguson changed its year end from 31 July to 31 December during 2025, and the calendar basis tells a better recent story: net sales grew **5.0%** to \$31.3 billion in the calendar year ended 31 December 2025 and adjusted operating margin rose **50 basis points to 9.6%**, implying a flow through above 20%. The two series overlap in time and are struck on different comparatives, so they cannot be blended and this report never blends them. But the most recent calendar evidence is the more favorable of the two, and a reader looking only at the July series would draw a harsher conclusion than the company's own most recent year supports.

Doing more with less

There is a second, quieter piece of evidence for the same mechanism.

Branch count peaked at 1,773 in financial 2024 and now stands at 1,729. Associate headcount has been flat at approximately 35,000 for three years. Over the same period revenue rose from \$29,635 million in financial 2024 to \$31,300 million in calendar 2025. Ferguson has added roughly \$1.7 billion of revenue with **fewer branches and no additional people**, while the fleet grew from about 5,900 to about 6,200 vehicles and market distribution centers went from four to six.

The market distribution center is the stated mechanism: an automated picking facility between the regional distribution centers and the branches, letting a branch carry less inventory while offering the same or better availability. It is the physical expression of the margin case, and at scale it lowers the cost base that has to be outrun, and with it the break even growth rate above.

The obvious objection is that the revenue was price rather than volume, in which case adding it with fewer branches proves nothing. The record says the opposite, emphatically. Across financial 2024 and financial 2025 Ferguson was in **six consecutive quarters of price deflation of roughly 2%**, reporting volume growth of approximately 1%, then nearly 2%, then about 3%, then 5% in the quarter to January 2025, which management described as the fourth consecutive quarter of volume growth. Price turned back to inflation only in the second half of calendar 2025. **The revenue Ferguson added with fewer branches and no additional people was volume, added against a price headwind**, which makes the operating point stronger rather than weaker.

The honest caveat is that the rollout has been slower than promised. Ferguson has spoken of two to three market distribution centers a year and has run at or below the low end of that, and the program did not advance at all during the five month transition period. Two facilities in three years is a pilot, not yet a transformation.

What Ferguson now sells, and to whom

The composition of the business has changed more than most descriptions acknowledge. In financial 2025 US non residential revenue crossed **50.1% of US net sales**, against 46.5% in financial 2020. Over five years, civil and infrastructure compounded at 14.69%, commercial at 10.53%, industrial at 8.07% and residential at 7.67%.

US end market, \$m	FY2023	FY2024	FY2025
Residential	14,820	14,464	14,598
Commercial	9,213	9,431	10,088
Civil and infrastructure	2,344	2,396	2,609
Industrial	1,914	1,904	1,974
Total non residential	13,471	13,731	14,671
Total United States	28,291	28,195	29,269

This is composition, not decline: residential dollars are 44.7% higher than in financial 2020. But the figure that matters for everything that follows sits in the first row. **US residential revenue in financial 2025, at \$14,598 million, is essentially flat on financial 2022's \$14,657 million, after three years of inflation**, with management confirming mid single digit price and residential revenue down 1% in the March 2026 quarter. If dollars are flat and price has risen, volumes are materially below where they were three years ago, and that single fact is the foundation of the cyclical argument running through the growth and risk sections.

What Ferguson does not disclose

Three constraints bound what any analyst can say about this company, and they are stated here once rather than worked around later.

Ferguson disclosed revenue by customer group exactly once, in the financial 2021 annual report, and has never repeated it. The financial 2024 and financial 2025 Form 10-Ks disaggregate revenue by end market and by geography only, and the transition-period 10-KT does the same. Every customer group revenue percentage in circulation today is therefore either that financial 2021 figure carried forward or a third party estimate. Market share by customer group exists only in the financial 2022 and financial 2023 annual reports, and this report dates it accordingly every time it is used.

With one exception, Ferguson has never disclosed the price paid for, or the revenue of, any individual acquisition, and it stopped naming acquisitions at all from financial 2023. The exception is FloWorks, announced in July 2026, where enterprise value, revenue, multiple and expected synergies were all published, and which is also the largest acquisition in the company's history. For the fifty-plus deals that built the platform, a company describing acquisition as a core capital allocation channel gives its owners no way to audit the returns deal by deal.

And there is no audited annual report covering calendar 2025. The Form 10-KT filed on 27 February 2026 covers only the five months from 1 August to 31 December 2025, so every calendar 2025 profit figure here is management presented and non-GAAP, as labeled. This report writes financial 2025 for a year ended 31 July, the transition period for the five months to



31 December 2025, and calendar 2025 for a calendar year. **The five month period is never annualized**, and recast calendar comparatives do not tie to previously reported July periods.

Competitive Advantages

Those three constraints bound what can be claimed. Within them, Ferguson's moat has four load bearing elements, each stated below with its mechanism, its measured evidence, and the boundary beyond which it stops working. The boundaries are the point: a moat argument that cannot say where the moat ends is not an argument, it is an advertisement.

Pillar one: local density, not national scale

The advantage is not that Ferguson is large. It is that Ferguson is close, in enough places, carrying enough breadth to make the trip worth taking and the delivery arrive today.

The proof is the best single exhibit in this report, and Ferguson published it itself in the financial 2022 and 2023 annual reports before quietly dropping it. As at financial 2023, Ferguson held 25% share in Fire and Fabrication, 22% in Waterworks, 22% in Commercial and Mechanical and 17% in Residential Trade Plumbing. In the same year, in the same country, on the same balance sheet, it held 6% in Industrial, **5% in HVAC** and 1% in Facilities Supply.

Same company. Same purchasing scale. Same distribution network. Seven radically different competitive positions. Whatever produces Ferguson's advantage does not travel with the corporate balance sheet, because if it did, share would be roughly uniform. It travels with local presence in categories where the product is technical, project specified and time critical.

The academic literature reaches the same conclusion from the other direction. Bruce Greenwald's treatment of competitive advantage argues that scale economies in distribution are inherently **local**, are strongest in small and mid sized markets, and that the correct test of the moat is local market share stability rather than national size. Ferguson's own disclosure is a natural experiment confirming a framework built without reference to the company.

The boundary. The three categories where Ferguson is weakest sit in roughly \$204 billion of addressable market, against roughly \$82 billion where it leads. That looks like runway. But Ferguson has held low single digit share in those three for decades. Density does not transfer automatically between categories, and any growth argument that assumes it will is assuming the thing it needs to prove.

Pillar two: cost to serve absorption, and what the gross margin record does and does not prove

The second pillar converts the low operating margin described above from an objection into a barrier. Its evidence is the most striking number in the company's financial history, and the one most likely to be over claimed.

Ferguson's gross margin moved within a **0.32 percentage point band across the five years to financial 2025**, through a demand boom, a commodity price spike, a period of deflation and a housing downturn, on a business where roughly 15% of US revenue is commodity linked. The comparison set, struck on the identical window for every company:

Company	Five year gross margin range
Ferguson	0.32pp
Fastenal	1.19pp

Company	Five year gross margin range
Watsco	1.50pp
Core & Main	1.55pp
Grainger	3.17pp

Three things about that table before anything is claimed from it.

The window is not neutral. Financial 2021 and financial 2022 were supply constrained years of unusually strong residential demand, when every distributor in the set had more pricing latitude than normal. **The comparison survives that objection because it is symmetric:** Fastenal, Watsco, Core & Main and Grainger all traded through the same shortage and the same spike, and Ferguson's band is still the tightest by a wide margin. Had the window flattered only Ferguson it would not be usable, and it does not.

An annual band conceals quarterly movement. The same five years contain quarterly gross margins from 29.7% to 31.7%; the annual figure is smooth because quarters offset. The stability described here is annual, not quarter to quarter.

And concede what the number does not show at all. A stable gross margin percentage is the arithmetic signature of disciplined cost plus pass through, not of pricing power. A distributor that passes a supplier's five percent price cut straight to its customers holds its gross margin percentage exactly constant while its gross profit dollars fall. This report does not claim that Ferguson raises price above cost, and the phrase "pricing power" does not appear attached to this evidence.

What the table shows is narrower and, properly stated, more interesting. Stable gross margins are a known property of the cost plus model, applying to Watsco and Fastenal as much as to Ferguson. **A category property cannot explain a gap of this size inside the category.** Ferguson's band is 3.7 times tighter than the tightest peer and roughly ten times tighter than Grainger's, over the same window, through the same shocks.

Two honest qualifications narrow it further, and the argument survives both. The first is aggregation. Ferguson reports one consolidated gross margin across seven customer groups, where Watsco and Core & Main are effectively single category businesses, and a portfolio of seven imperfectly correlated series is mechanically more stable than any one of them. Aggregation alone plausibly accounts for a meaningful part of the gap, so the residual is smaller than 3.7 times. It is not zero, because Fastenal and Grainger are also multi category businesses and both are wider than Ferguson by a factor of four or more.

The second is that an aggregate gross margin is an outcome of customer, order size and channel mix as well as of price realization, and Ferguson does not disclose enough to decompose it. A stable aggregate is consistent with offsetting drifts underneath. **So the stability is evidence about the system, not about any individual transaction,** and this report treats it that way.

What survives is worth having. Ferguson executes cost plus pass through with a consistency no comparable distributor matches, across more than 1,700 locations, more than a million stock keeping units and a customer base it cannot survey centrally, through both an inflationary period and a deflationary one. That is an execution fact rather than a pricing fact, and exactly the sort that is hard to buy and hard to copy.

And it kills the wrong comparison. Ferguson's 30.7% gross margin against Fastenal's 45% is a comparison of product mix, not of competitive strength. Set against the models that actually resemble Ferguson's, it earns roughly 270 to 370 basis points more gross margin than Watsco or Core & Main, at three to four times their revenue.

The boundary. This pillar protects Ferguson against a price attack. It does not protect it against a competitor that accepts Ferguson's price and matches its service in a single dense metropolitan market, which is the cherry picking risk discussed in the risk section, and which no source consulted for this report has answered.

Pillar three: multi customer group project capture

This is the newest of Ferguson's advantages and the only one visibly compounding in the reported numbers.

A hyperscale data center needs underground utilities, process piping, liquid cooling assemblies, valves, and fire suppression. A specialist distributor supplies one of those. Ferguson can supply all of them, and it can engage at the design stage, where specification is decided and a supplier present when the drawings are drawn is very difficult to displace once construction begins.

The evidence is unusually clean. Commercial and Mechanical has grown **+21%, +21%, +18% and +18% across four consecutive quarters**, against strengthening comparatives, with backlog up more than 18%. US Census data corroborates it from entirely outside the company, putting data center construction spending up **28.1%** at a time when total real construction volume is flat to modestly negative.

The mechanical link that makes this pillar more than a list of categories is sequencing.

Waterworks goes in first on a large project, for the underground utilities, and that is how Ferguson gets specified before the other groups arrive. The advantage is not breadth of catalog. It is that breadth of catalog plus early presence converts one relationship into five.

The single largest project Ferguson has described publicly has delivered **over \$40 million of revenue with over \$100 million of open orders still to convert**. Those are two different things and this report keeps them apart: the first is money earned, the second a pipeline that may or may not arrive on schedule. Together they say that a single hyperscale campus can be worth a nine figure relationship to a distributor most people think of as a plumbing supplier.

The boundary. Sized honestly, data center revenue is roughly **3.0% to 4.5% of Ferguson**, which makes a digestion year survivable at the revenue line and also means this pillar cannot carry the growth algorithm on its own. Any argument that leans on it to do so is leaning on four percent of the company.

Pillar four: reverse switching costs, bounded by customer size

The conventional statement of this pillar is that Ferguson's suppliers, not its customers, bear the cost of leaving: a manufacturer that walks away from Ferguson loses access to tens of thousands of contractors it has no way to reach directly. The conventional statement is too strong, and Ferguson's own filings say so.

The Form 10-K states, in the present tense, that Ferguson **"has experienced"** competitive pressure from suppliers integrating vertically, and concedes that such suppliers **"can often sell**

their products at lower prices and maintain higher gross margins on their product sales than we can."

That disclosure needs reading in context. It appears in Item 1A, Risk Factors, where disclosure exists to satisfy a legal obligation to describe what could go wrong, is drafted conservatively and systematically overstates. Ferguson says it has experienced the pressure. It does not say the pressure is growing, that it is material, or that it is unmanaged. And a company losing a price war to its own suppliers would not hold its gross margin inside a 32 basis point band for five years.

So the pillar survives in a bounded form, and the boundary is the substance. **A manufacturer can economically go direct to its largest accounts. It cannot economically reach the fragmented long tail**, because putting a two hundred dollar fitting in front of a two truck contractor within forty minutes requires precisely the branch network, inventory position and delivery fleet that Ferguson has spent four decades and several billion dollars assembling. **The boundary is customer size**, and it is real rather than rhetorical, because it predicts something checkable: supplier direct pressure should show up in Ferguson's largest accounts and its most commoditized categories, and not in the long tail.

Stated this way the pillar is weaker than the version in circulation, considerably more defensible, and the honest reading of what the company has actually disclosed.

Durability, and the uncomfortable fact

A widening moat should show up in returns on capital. Ferguson's have fallen, from 40.4% in financial 2022 to roughly 29.4% in financial 2025, on the company's own definition. That is the single most awkward fact in this report and it is not dismissed here: most of the financial 2022 to 2023 fall is a financing artifact and the financial 2024 and 2025 declines are operating, and the next section, which owns the decomposition, owns the conclusion.

The competitive set, ranked honestly

The most credible threat is supplier direct selling. It is real, it is acknowledged by the company, it is bounded by customer size, and there is no evidence in five annual reports or twelve earnings calls that it is accelerating.

The most underweighted threat is the category specialists. Watsco and Core & Main are focused, well capitalized operators occupying exactly the two categories on which Ferguson's growth thesis leans hardest. Watsco earns a **higher operating margin than Ferguson**, 9.95% against 9.24%, on roughly a quarter of the revenue. If low operating margin were purely a barrier, that comparison would not exist, and the report notes it rather than explaining it away.

The threat nobody answers is cherry picking. An entrant does not need to replicate Ferguson's network, only to take the dense, profitable metropolitan markets and leave the fragmented long tail, which is where the cost to serve advantage is concentrated and where incremental economics are thinnest. No source located in this work, bull or bear, rebuts it, and the risk section states the argument in full.

The most overrated threat is Amazon. Same day delivery of a three hundred pound condensing unit to a job site is not a problem that scale in parcel logistics solves, and the category where Amazon is genuinely relevant, Facilities Supply, is one where Ferguson holds 1% share and therefore has almost nothing to lose.

And contractor consolidation cuts both ways. A consolidated five hundred million dollar contracting platform has more purchasing leverage over Ferguson and also brings a great deal more volume through the door in the same transaction.

The runway, with the caution attached

Ferguson's revenue is 9.2% of the \$340 billion market it describes for itself, or 7.8% of the \$400 billion figure adopted after the FloWorks acquisition was announced. Both readings are true at once: an enormous runway, and a market that after decades of consolidation by its largest participant still contains more than ten thousand competitors and in which, in Ferguson's own words, "not one market is dominated by a single distributor."

One caution belongs alongside that number every time it is used. **No independent source sizes this market.** Every third party quotation of the \$340 billion figure traces back to Ferguson, the figure did not move for four years through a period of significant construction inflation, and it moved only when an acquisition made a larger number convenient. It is a reasonable order of magnitude indication of fragmentation. It is not a measurement, and it should not be used as a denominator in any calculation that carries analytical weight.

Whether that runway is being bought at prices worth paying, and what has happened to the returns on the capital already deployed, is where this report turns next.

Management and Capital Allocation

The return on capital question

Ferguson's return on capital employed has fallen for three consecutive years, from **40.4% in financial 2022 to 34.6%, then 31.1%, then roughly 29.4% in financial 2025**. Return on capital is one of the three metrics on which senior management is paid. Across twelve earnings calls, not one analyst asked about it.

The first question is whether this is simply the cycle, and a large part of it is: return on capital is a ratio of profit to capital, and Ferguson's profit has been compressed for three years by the volume weakness described earlier while its capital base kept growing. But the cycle is not the whole of it, and the other two explanations are more interesting.

The definition matters enormously. Ferguson computes return on capital employed as adjusted EBIT divided by average capital employed, and defines capital employed as **shareholders' equity plus net debt**. Both terms sit in the denominator.

Between financial 2022 and financial 2023, adjusted EBIT fell 1.9% while average capital employed rose 14.5%. The reason was not the operating business. **Average net debt rose from \$2,193 million to \$3,197 million, an increase of 45.8%, while average shareholders' equity moved 0.4%**. Ferguson borrowed money and bought back stock, and because a buyback raises net debt and reduces equity, and both sit in the denominator on this definition, the metric compresses mechanically.

At financial 2021 leverage levels, financial 2023 return on capital employed would have been roughly 46.8% rather than 34.6%.

Two readings of that belong in an honest assessment. The favorable one is that management deliberately depressed a metric they are paid on to return capital at what they judged an attractive price, which is alignment working correctly and rarer than it should be. The unfavorable one is that the financial 2024 and financial 2025 declines cannot be explained this way, because leverage was broadly stable by then: those two years are operating, margin compression from the cost absorption dynamic described earlier plus a capital base growing through acquisition goodwill and distribution center construction.

Neither "returns are collapsing" nor "there is nothing to see here" is a true statement about Ferguson. Both are being said.

Two further observations sharpen the picture, and neither has appeared elsewhere.

The first answers the cyclical question directly, and it is a consistency test this report is obliged to apply to itself. Reading growth through the cycle rather than at a point is this report's own discipline, and applied to return on capital it produces a materially different picture than anchoring on financial 2022 implies. The seven year series reads 29.4%, 28.5%, 34.5%, 40.4%, 34.6%, 31.1% and roughly 29.4% for financial 2019 through 2025. **Financial 2025 is the same number as financial 2019. The seven year mean is 32.6%. The anomaly in that series is financial 2022, not financial 2025.** A reader told only that returns have fallen from 40.4% to 29.4% has been given a true fact and a misleading frame.

The second cuts the other way and is the sharper question. Between financial 2022 and financial 2025, average capital employed rose roughly 31% while adjusted EBIT was flat to

slightly down. **The incremental return on the capital Ferguson has deployed over the past three years is therefore approximately zero.** That is the capital allocation question in its most demanding form, though the period covers a residential downturn during which some of that capital, notably the market distribution centers and the 650 converted HVAC counters, was deployed deliberately ahead of the demand it is meant to serve, and capital committed in a trough looks unproductive until the trough ends. **That is a defense with an expiry date, and the next two years will settle it.**

What the guidance record shows

Across thirty checkable forward statements over twelve earnings calls, twenty were delivered or beaten, four were cut and then met, and four were missed. That is a strong record by the standards of the exercise, and one episode illustrates its character.

In March 2025, Ferguson cut its financial 2025 adjusted operating margin guidance from 9.0% to 9.5%, down to 8.3% to 8.8%. In June it raised the range to 8.5% to 9.0%. It then **delivered 9.2%, above the top of the revised range and inside the original one.** In the same period management committed publicly to being "a 30 plus percent gross margin business" when gross margin stood at 29.7%, delivered 31.0% the following quarter, and has sustained it for five quarters since.

The blind spot is pricing, and it deserves the same prominence as the strengths. Ferguson called a "broadly neutral pricing environment" for financial 2024 and reaffirmed it wrongly for three consecutive quarters against roughly 2% of actual deflation. The broader normalization call missed by roughly six quarters. In May 2026 the error inverted, with inflation running above the company's own assumption. A company whose gross margin discipline is one of its two strongest competitive claims has repeatedly failed to forecast the price environment that discipline operates in.

A secondary pattern flatters a headline number. Capital expenditure is systematically over forecast: cut once during financial 2024 and twice during financial 2025, delivering \$305 million against an original floor of \$400 million. Lower capital expenditure raises free cash flow in the year it happens, and a reader tracking cash conversion should know that some of the improvement is a forecast that did not need to be spent.

Capital allocation: the record, the pivot, and the arithmetic

Across financial 2021 to financial 2025 plus the transition period, Ferguson spent **\$4,842 million on share buybacks and \$2,113 million on acquisitions**, so buybacks have run at roughly **2.3 times** acquisition spend.

Over the same period, acquisitions contributed +1.8%, +1.0%, +1.0% and +0.8% to annual growth, against a stated target of 1% to 3%. **Management acknowledged the shortfall unprompted in February 2026**, which is to their credit, and then acted on it in three visible steps. The capital allocation framework was re-ordered on 24 February 2026 to place bolt on acquisitions **ahead of the dividend**. Six deals worth roughly \$350 million of annualized revenue were closed or signed by May. And on 13 July 2026 Ferguson announced **FloWorks**, at \$1.6 billion of enterprise value for roughly \$1 billion of revenue, at approximately 10 times last twelve month adjusted EBITDA **including** approximately \$45 million of expected synergies.

Two things need saying about that transaction and they point in opposite directions.

The synergy inclusive framing deserves credit. The industry habit is to quote an entry multiple before synergies and let the reader discover later that the number was flattered. Ferguson quoted the harder version, which is a small signal about how the company communicates.

But the arithmetic underneath it is a finding. \$1,600 million at ten times implies post synergy EBITDA of \$160 million; removing the \$45 million of synergies leaves \$115 million. **The unsynergized entry multiple is therefore roughly 13.9 times**, against the 7 to 10 times range Ferguson has disclosed for its acquisition program, and roughly 1.6 times revenue against the roughly 1.06 times it has paid historically across more than fifty deals. This is the price of buying scale rather than family businesses, and it may well be the right price. But it is a departure from a playbook built for ten to three hundred million dollar targets, five times larger than any deal in it. It has not closed.

Set against the 2.3 to 1 history, the re-ordering of the capital allocation framework reads partly as a statement of intent and partly as an admission.

What cannot be assessed

Any assessment of Ferguson's acquisition returns runs into a wall, and it is better to describe the wall than to pretend it is not there.

With one exception, Ferguson has never disclosed the price paid for, or the revenue of, any individual acquisition, and it stopped naming acquisitions at all from financial 2023. The exception is FloWorks, the largest deal it has ever done, where enterprise value, revenue, multiple and synergies were all published.

What is available is aggregate, and better than it first appears, because the January 2022 Investor Day published the arithmetic directly: over the five years to that date, **44 acquisitions, \$2.1 billion of acquired revenue and \$1.8 billion of purchase price, or 0.86 times revenue.** Across the longer run of more than fifty deals to date the implied figure is closer to 1.06 times, and the difference is a reasonable measure of how much prices have moved. The same slide gave a **typical entry multiple of 7 to 10 times EBITDA**, a range the chief financial officer repeated on 16 September 2025. Below that level of aggregation nothing is available.

On synergies, the company has said more than its filings suggest. The same slide gave **typical synergies of 2 to 3 times**, in the same unit and immediately beside the entry multiple. The natural reading, and the one that circulates, is that synergies are worth two to three turns of EBITDA and take the effective post-synergy multiple to something like 5 to 7 times. That reading is reasonable, and it is worth being precise about what Ferguson published: the deck prints the two figures adjacently and leaves the arithmetic to the reader. It never uses the words compression, turns or post-synergy, it has not repeated either statistic in any annual report or on any earnings call, and it dropped both from the February 2026 strategy update. **The figures are the company's. The sentence usually built from them is not.**

Two other claims that circulate cannot be supported and are not used here. That Ferguson earns a **cash flow return on investment above 15%** rests on a metric it does not disclose in any period, alongside return on invested capital, which it also does not disclose. A third figure in circulation, that Ferguson sources at a **20% to 25% discount to regional competitors**, comes from our own primary channel work rather than from the company. **It is an expert-network estimate and this report treats it as one.** It has no public corroboration of any kind: Ferguson has never quantified a purchasing advantage, no sell-side estimate of one exists, and the

company publishes only inputs, namely 34,000 suppliers with none larger than 5% of cost of sales. **We use it as a directional indication and nothing in our analysis depends on it.** What can be evidenced directly is absolute purchasing scale: financial 2025 cost of goods sold of \$21,327 million is 1.95 times Grainger's, 3.82 times Core & Main's and 4.09 times Watsco's, and a distributor buying four times the volume of the largest pure-play HVAC specialist does not need a precise discount figure for the direction to be obvious.

Executive incentive targets for financial 2022 onward are not in the public record in a usable form. What the financial 2021 record shows is worth one observation. **Both executives were paid 100% of maximum bonus on trading profit of \$2,096 million against a maximum target of \$1,709 million, which is 22.6% clear of the level required for full payout,** with the concurrent long term incentive plan vesting at 100% on all three measures and the two following awards tracking to 100% as well. Whether that calibration persisted into the years when performance was harder is the single most valuable unknown in this section.

Governance and people

The governance is clean and unremarkable in the way good governance usually is. Eleven directors, nine of them independent, an independent chair separate from the chief executive, a single share class, no controlling shareholder, Deloitte throughout, and one immaterial related party lease. The chair is **Geoff Drabble**, former chief executive of Ashtead, a structurally similar branch network compounder and an unusually relevant background for the role.

The people are the more interesting fact. **Six of the eight named executives are Ferguson lifers with 26 to 36 years of service each, and two of them, including chief executive Kevin Murphy, joined through the acquisition of their own family or employer businesses.** For a company whose growth depends on persuading family owners to sell and then retaining the people who came with them, that is a functional operating asset rather than corporate sentiment: a founder deciding whether to sell to Ferguson is being courted by people who made the same decision themselves.

The counterweight is given equal weight here because it is real. **Aggregate insider ownership is 0.15% of the company, roughly \$88 million,** with twelve months of insider sales totaling approximately \$6.9 million and no purchases. Alignment at Ferguson comes from the compensation plan, not from ownership. And the financial 2025 shift in the long term incentive mix, from 70% performance shares to 50% performance shares plus 30% time vesting restricted shares, moves marginally in the wrong direction on that measure.

Management's execution and its capital allocation both operate on a market it does not control, and the condition of that market is the next question.

Industry Overview

The market Ferguson has been growing into is not growing

US construction spending ran at **\$2,172.4 billion annualized in April 2026, up 0.9% year on year in nominal terms**. Ferguson grew net sales 5.0% in calendar 2025 and 3.6% in the March 2026 quarter into that.

Decomposing calendar 2025 gives the cleanest statement of what has been happening: organic growth of **+4.5%**, acquisitions **+1.0%**, less 0.4% for a lost selling day and 0.1% for currency and the Canadian divestment. **Essentially none of Ferguson's recent growth has come from the market growing**. It has been share gain, price and acquisition into a market at best flat in volume terms.

How flat depends on which deflator is used, and the choice matters enough to state openly rather than pick silently. Construction input costs rose 4.4% over the same period, which would put real construction volume near **minus 3.5%**. The Bureau of Economic Analysis chain price index for non residential structures, which measures the price of the output rather than the cost of the inputs and is the more appropriate deflator for a spending series, implies something closer to **minus 0.5% to minus 1%**. The honest range is therefore roughly flat to modestly negative rather than sharply negative.

The conclusion that matters is robust to that choice. Whichever deflator is used, Ferguson has outgrown its end market by something on the order of 300 to 400 basis points a year for three years, and Ferguson itself published a figure of 350 basis points of average US organic market outperformance over five years at its January 2022 Investor Day. The conclusion that does **not** survive the choice is the stronger claim that the market is contracting materially. It is not. It is flat, and Ferguson is taking share within it.

The obvious follow-up is how the market looks once the megaprojects are removed, since data centers and the power infrastructure serving them are doing most of the work in the headline. Stripped of manufacturing and power, private non residential construction **grew 2.7% in calendar 2025 and has fallen since**, and the size of that fall is set out with the historical comparison below. The ex-megaproject market is neither collapsing nor growing: it rolled over in 2026 having grown modestly in 2025, and the decline so far is mid single digits at worst.

That distinction has a direct valuation consequence. If the market is flat rather than deeply depressed, a recovery is a smaller tailwind than a deep trough narrative implies, and the missing two to four points of market growth that Ferguson's algorithm assumes have further to travel than a mean reversion story suggests.

Four secular props, and one of them is subtracting

Non residential construction is widely described as supported by four secular categories. April 2026 Census category data says three of them are and one is not.

Category	Year on year change, April 2026
Data centers	+28.1%
Power and utilities	+6.0%
Manufacturing	-18.4%

Manufacturing construction is subtracting, not propping, as the CHIPS Act and Inflation Reduction Act megaproject wave normalizes off an extraordinary base. That does not break the case for non residential strength, but it narrows it considerably: Ferguson's non residential exposure is not diversified across four secular growth categories, it rests substantially on **data centers and the power infrastructure built to serve them**. Higher torque and higher concentration are the same fact described from two directions.

The cyclical comparison, corrected

A claim in circulation holds that US private non residential construction, stripped of the secular categories, is showing a peak to trough decline in line with historical downturns. That claim was tested for this report against Census Value of Construction Put in Place data going back to 1993, and it does not survive.

Private non residential, excluding manufacturing and power	Nominal peak to trough	Real
2008 to 2011	-46.4%	-46.7%
2000 to 2003	-16.3%	-26.3%
2025 peak to 2026 first half	-1.1%	-3.8%

Data centers cannot be stripped cleanly, because Census reports them inside the private office category and has published them separately only since July 2024. But the gap is too large for that to matter. Removing the **entire** private office category, which is a hard upper bound on the data center effect, still leaves a decline of only 6.8% nominal and 9.9% real on an annual basis.

The current downturn in ex secular non residential construction is therefore roughly **one seventh** the size of the global financial crisis episode and well under half the size of the milder 2001 to 2003 downturn. The honest restatement is that the series has rolled over and is down mid single digits from its peak, a materially milder decline than either historical precedent.

Series construction, for the reader who wants to check it: annual figures built from Federal Reserve Economic Data mirrors of the Census monthly seasonally adjusted annual rate series PNRESCONS, PRMFGCONS, PRPWRCONS and PROFCONS, deflated with the Bureau of Economic Analysis non residential structures chain price index.

A widely repeated bear point that overstates the case

May 2026 housing starts fell 15.4% month on month to their lowest level since 2020. The number is correct. Applied to Ferguson, it is misleading.

The fall was driven almost entirely by multifamily, which **collapsed 40.2%**. Single family fell **1.9% month on month and 6.7% year on year**. Single family carries substantially more Ferguson content per unit, because a detached house has more bathrooms, more fixtures and more linear feet of pipe than an apartment in a stacked building. **Single family is the relevant series, and anyone reading across from the 15.4% headline is overstating the deterioration in Ferguson's residential end market by a wide margin.**

Market structure sets the horizon

The market is extremely fragmented and consolidating slowly, and getting the pace right matters more than getting the size right. There are more than ten thousand small and mid sized independent distributors in North American plumbing, HVAC and waterworks distribution, and no category is dominated by a single one. Bernstein finds that the **top ten industrial distributors collectively gained roughly 12 percentage points of share from subscale competitors between 2018 and 2023**, about 2.4 points a year spread across the whole top ten.

Ferguson acquiring \$400 million to \$500 million of revenue a year against a market of this size makes consolidation **a multi decade process rather than a five year catalyst**. That is not an argument against the opportunity but about the rate at which it can be harvested, and it should discipline any model that assumes acquisition contribution can be scaled up quickly.

The same discipline applies to category share. Ferguson's financial 2023 disclosure, set out in the competitive section, pairs 17% to 25% share in four smaller technical categories worth roughly \$82 billion with 1% to 6% share in the three largest and most commoditized, worth roughly \$204 billion. Any argument that the advantage will travel into the large commoditized categories has to explain why four decades of trying has not moved those numbers. And the standing caution on Ferguson's market sizing applies here too: **no independent source sizes this market**, every third party citation of the \$340 billion figure traces back to Ferguson, and it moved to \$400 billion only when an acquisition made the larger number relevant.

Ferguson is attacking two categories from behind

The two categories the growth thesis depends on most are the two where Ferguson is weakest, and in both it faces a capable, focused incumbent.

In HVAC, **Watsco earns a higher operating margin than Ferguson, 9.95% against 9.24%, on roughly a quarter of the revenue**, which is the concession recorded earlier and not explained away here. Watsco's own financial 2025 revenue fell 4.98%, and Ferguson's HVAC customer group fell 1% in calendar 2025. Two operators in the same category falling at the same time is **category wide demand weakness, not share transfer in either direction**. There is no evidence in any source consulted for this report that Ferguson is currently taking HVAC share from Watsco, and this report does not claim it.

In industrial flow control, the arena Ferguson is buying into with FloWorks, the established specialists are Flow Control Group and Applied Industrial Technologies, and Ferguson held 6% category share as at financial 2023.

Sizing the data center opportunity, with the arithmetic shown

Management's only sizing puts large capital projects at mid to high single digits of revenue, with data centers "a bit over 50%" of that. That implies roughly **\$0.9 billion to \$1.4 billion of data center revenue, or 3.0% to 4.5% of Ferguson**.

Does that reconcile with the external evidence? US data center construction is running at \$50.7 billion annualized and growing 28.1%, with data center power demand forecast to move from 31 gigawatts to 66 gigawatts by 2027, and an expert call puts Ferguson's share of data center distribution at 40% to 50%. Those numbers reconcile with management's sizing only if Ferguson's content runs at roughly 5% to 6% of total construction value, above the 2% to 4% management states for large projects in general.

That is consistent with liquid cooled projects carrying materially higher mechanical content, which is precisely what the growth thesis argues. The pieces hang together, which is more than can be said for most sizing exercises of this kind. But the content multiplier itself is contested across three third party estimates spanning two to six times, and **Ferguson has never quantified it on any call.** This report shows the range and its sources rather than picking a number from within it.

A flat market that Ferguson is nonetheless outgrowing is the setting in which its six stated growth pillars have to be assessed, and they do not all survive the setting equally well.

Growth Opportunities

The frame, and what it costs to adopt it

Ferguson's growth algorithm is a **through the cycle** construction. It describes what the business should compound at averaged across an entire cycle, upturn and downturn together, and it is not a forecast for any year. That distinction is not a convenience: residential construction and residential HVAC are both in a downturn, US housing is weak, and reading the current point as a run rate is the easiest way to misprice this business in either direction.

Adopting that frame honestly requires stating its cost immediately, and the cost is that the algorithm has not been delivered for three years.

Component of the algorithm	Stated target	Delivered
Market growth	2% to 4%	absent for three years
Outperformance of the market	3% to 4%	delivered, 300 to 400 basis points every year for three years
Acquisitions	1% to 3%	0.8% to 1.8%, below target
Margin expansion	10 to 30 basis points a year	roughly 1.5 basis points a year from the financial 2021 base
Total revenue growth	6% to 11%	7.78% CAGR FY2021 to FY2025; 2.50% FY2022 to FY2025 ; 5.0% in CY2025

Two of the four legs have worked. The outperformance leg is the most impressive thing in the table: Ferguson has taken 300 to 400 basis points of share every year into a market that has not grown. The acquisition leg has under delivered but is visibly recovering, with roughly \$1.35 billion of announced acquired revenue in calendar 2026 to date, about 4.3% of revenue, once FloWorks and six bolt ons are counted.

The margin leg has not worked at all, and the reason is the threshold set out in the Company Overview: a cost base that inflates by roughly \$270 million a year regardless of revenue requires close to three percent of growth before any margin expansion is available, and Ferguson has cleared that threshold once in four years, in financial 2022, when flow through arrived at 14.9%. In the three years since, revenue grew 4.1%, fell 0.3% and grew 3.8%, and margin fell in every one of them.

The missing component is market growth, and the chief financial officer's formulation of what that means is the most useful sentence any Ferguson executive has offered about the economics of the business: in low single digit growth, "we will work very hard and can kind of hold serve on operating margin."

The consequence for anyone modeling this company is precise. A model pairing low revenue growth with steady margin expansion contradicts the company's own stated mechanics and four years of its own record. Margin expansion here is not an independent lever. It is what clearing the growth threshold produces.

Which pillars carry weight, said openly

The six pillars below are presented in the order the house framing gives them, but ordering them and ranking their realized evidence are different acts, and this report does both. On the evidence available today, pillars two, three and four are load bearing; pillar one is an option that has not yet produced revenue; pillar five is real but too small to see in the reported numbers; and pillar six is real on its residential leg and has lost its non residential leg entirely.

Worth saying at the outset: **the two vectors with the strongest realized evidence in the entire business, Commercial and Mechanical and Waterworks, are not among the six pillars.** That is an observation about the framing rather than a challenge to it.

Pillar one: HVAC share gains through the dual trade contractor

The structural case. A growing share of residential mechanical contractors work both plumbing and HVAC, and a contractor already collecting plumbing supplies at a Ferguson counter has an obvious reason to collect HVAC supplies there too. Ferguson has built for exactly that: from 200 dual trade counter conversions in September 2024 to **more than 650 by February 2026**, delivered on schedule, against roughly **5% share of a roughly \$70 billion market** as at the financial 2023 disclosure. The infrastructure exists and it is paid for.

The trough, disclosed without hedging. HVAC customer group revenue grew **minus 1% in calendar 2025**, against a **plus 10% comparative**, with two consecutive negative quarters before returning to plus 1%. Management attributes it to the A2L refrigerant transition, weak new residential construction, and a customer shift from replacement to repair.

The frame. The category is not growing for anybody: Watsco, the focused incumbent with the higher operating margin, saw its own financial 2025 revenue fall **4.98%**. Ferguson at minus 1% and Watsco at minus 4.98% in the same period is a demand problem, not a share problem, and reading either as a verdict on competitive position is a category error. The competitive set has also widened. On **11 May 2026, Home Depot's SRS Distribution completed the acquisition of Mingledorff's**, 42 HVAC distribution locations across five southeastern states, entering wholesale HVAC distribution aimed at the same professional customer. Kevin Murphy acknowledged the entry without spin.

The honest summary. Pillar one is a coherent prospective thesis, its infrastructure complete and its fixed cost already absorbed, sitting in a category at a cyclical low and facing a larger competitive set than a year ago. **As at the analysis date it had produced no measurable revenue traction, and Ferguson has never disclosed, and no analyst has ever requested, a revenue per counter metric.** The through cycle case is that the counters are a sunk cost that will monetize when the category turns. **That case took its first step toward proof after this analysis was struck: HVAC grew 11% in the second quarter of calendar 2026, against a plus 1% comparable. One quarter on a soft base is not a trend, but the direction has changed.** See the update section at the front of this report.

Pillar two: data center and large capital project content

This is the strongest realized evidence in the report and the pillar carrying most of the delivered outperformance. **Commercial and Mechanical has grown +21%, +21%, +18% and +18% across four consecutive quarters, against strengthening comparatives, with backlog up more than 18%**, corroborated from outside the company by Census data putting US data

center construction spending up 28.1% against a total market roughly flat in volume terms. The mechanism, set out in the Competitive Advantages section, is sequencing: Waterworks goes in first for the underground utilities, which is how Ferguson gets specified before the piping, cooling, valve and fire suppression decisions are made.

Two disciplines apply. The largest project Ferguson has described publicly has delivered **over \$40 million of revenue with over \$100 million of open orders still to convert**, and this report keeps booked revenue and order book separate rather than summing them. And the vector must be sized honestly at **3.0% to 4.5% of revenue**, which makes a digestion year survivable at the revenue line and also means this pillar cannot carry a 6% to 11% algorithm by itself.

Pillar three: acquisition optionality

Mechanically this is the most important of the six, the only one contributing a fixed and quantifiable share of the growth algorithm regardless of the cycle. Management's own framing puts it at **"just under 2%"** of annual growth, roughly a third of the base case growth rate used in the valuation section.

The unit economics are disclosed in aggregate and they are good: **44 acquisitions, \$2.1 billion of acquired revenue and \$1.8 billion of purchase price**, or 0.86 times revenue, at a **typical entry multiple of 7 to 10 times EBITDA with typical synergies of 2 to 3 times**, all published at the January 2022 Investor Day, against roughly 1.06 times sales across the longer run of more than fifty deals. The Management section sets out exactly what the company did and did not say about those synergies, along with the February 2026 re-ordering of bolt on acquisitions above the dividend and the arithmetic implying an unsynergized entry multiple of roughly 13.9 times for FloWorks.

The boundary on this pillar is the one described in the Industry section. A market consolidating at roughly 2.4 percentage points a year across the whole top ten of the industry cannot absorb a rapid scaling of Ferguson's acquisition program. Two percent a year is achievable and durable. Four percent a year would require a different kind of transaction, which is precisely what FloWorks is.

Pillar four: adjacency reinvestment runway

Verified, and stronger than the framing claims on growth while weaker on margin. The correction is the most analytically interesting point in this section.

US civil and infrastructure revenue, the end market Waterworks serves, has compounded at 14.69% over five years, from \$1,315 million in financial 2020 to \$2,609 million in financial 2025, in the category where Ferguson holds 22% share and its strongest competitive position. It is the fastest growing line in the business, and the Waterworks customer group has grown in each of the last six quarters. Commercial and Mechanical grew 18% for the year, and US non residential crossed 50% of US sales in financial 2025.

The strategic logic of the compounder analogy holds. The two criteria usually cited for successful adjacency expansion, prior familiarity with the adjacent market and a visibly widened moat, are both satisfied: Waterworks, Commercial and Mechanical and Fire and Fabrication are existing number one positions being deepened, and multi customer group project capture is exactly the moat widening those criteria describe.

The economics do not transfer. In each of the businesses usually offered as analogues, the adjacency was **higher margin than the core**, which is why mix shift showed up as margin expansion. Ferguson's adjacency expansion has not moved gross margin at all in five years, and management states that large capital projects carry slightly lower gross margins offset by a slightly lower cost to serve. **The Ferguson version of the adjacency thesis is a growth argument, not a margin argument.** That is coherent and defensible, but it is not the argument made for Fastenal, and the analogy should not be allowed to imply that it is.

Pillar five: own brand mix shift

Real, slower than claimed, and not the margin engine.

The only filed series runs from **6.6% of revenue in financial 2017 to 8.6% in financial 2021**, after which the metric was dropped from disclosure. Management stated **"21 owned brands that make up approximately 10% of our overall revenue"** on 24 February 2026. That is roughly 140 basis points of penetration in four and a half years, or **about 30 basis points a year, close to half the pace the popular framing implies.**

The claim that own brand carries **roughly double** the gross margin of branded product is the company's own, from the January 2022 Investor Day, which put own brand at approximately 9% of revenue, growing at roughly twice the core rate, at roughly **twice the gross margin** of the rest of the range. Ferguson has not repeated the figure in any annual report or on any of twelve earnings calls since, where it says only "higher gross margins", so it is a single dated disclosure rather than a maintained one. Taken at face value, own brand at the disclosed pace of penetration contributes something on the order of **nine basis points of gross margin a year.** Against a business whose five year gross margin range is 32 basis points in total, that is **not observable in the reported series**, which is why five years of own brand growth have left gross margin essentially unchanged.

Own brand is better understood not as a margin lever but as a **specification tool**: an exclusive range gives Ferguson something to sell that a competitor cannot quote against, and buys influence with the architects and engineers who write specifications. That is a genuine advantage, and a different one from the margin claim.

The counterweight is one Ferguson discloses itself: private label expansion "may adversely affect sales of our suppliers' products, which in turn could adversely affect our relationships with certain of our suppliers." For a company whose stated positioning is to be the best path to market for its suppliers, that is a real tension, and no source identifies where the ceiling binds.

Pillar six: cyclical torque, narrowed to its residential leg

The residential leg survives and it is the stronger of the two. US residential revenue in financial 2025, at \$14,598 million, is essentially flat on financial 2022's \$14,657 million after three years of inflation, with management confirming mid single digit price and residential revenue down 1% in the March 2026 quarter. Dollars flat with price up means **volumes materially below the financial 2022 level**: real operating leverage waiting on a residential recovery, disclosed rather than inferred.

The non residential leg does not survive and is dropped. The claim that non residential construction excluding the secular categories is showing a peak to trough decline in line with historical downturns was tested against Census data for this report and does not hold: the

current decline is **1.1% nominal and 3.8% real, against 46.4% in 2008 to 2011 and 16.3% in 2000 to 2003**. The Industry section sets out the working.

Two disciplines apply to what remains. The word **"trough"** appears zero times across twelve earnings call transcripts, so this pillar is an outside construction rather than management's framing, and it is presented here as our analysis. And the size of the residential torque should be stated rather than implied: US residential is 49.9% of US net sales and 47.4% of group net sales in financial 2025, so a recovery restoring financial 2022 volumes would be worth several points of group growth over the period it took to arrive. The timing of that recovery is not forecastable from anything in the public record.

The same operating leverage that makes those pillars worth owning is what makes the downside worth measuring carefully, and it runs in both directions.

Risks

Nobody has stress tested this company

Before setting out what could go wrong at Ferguson, it is worth recording that almost nobody has tried.

Short interest stands at **1.56% of float**, roughly 2.25 days to cover. No short seller report exists, and no Sell rating appears in the recorded analyst coverage. Across twelve earnings calls the questioning is competent and largely operational: the two most consequential open questions in this report, the fall in return on capital and whether 650 converted HVAC counters produce any revenue, were raised by nobody.

The adversarial input a risk section normally draws on is absent. What follows is built from the question and answer sections of twelve earnings calls, Ferguson's disclosures read against the grain, and the arithmetic of what happens when revenue stops growing. **The absence itself belongs in the assessment: nobody with money at risk has done this work in public.**

The master risk: operating leverage

Every other risk in this section transmits through one mechanism, the same one that makes the bull case work.

The observable record is unambiguous. **In financial 2024, revenue fell 0.3% and adjusted operating profit fell 3.2%, costing 28 basis points of margin.** On essentially flat revenue, the cost base grew and consumed \$93 million of profit. UBS separately put quarterly decremental margins at "**close to 40%**", against management's stated 11% to 14% incremental, and the chief financial officer did not dispute it, attributing the figure to "the fixed cost nature of our business."

Quantified against the largest single exposure: a 10% decline in US residential revenue is **\$1,460 million, or 4.7% of group revenue.** At management's guided 11% to 14% decremental that costs \$161 million to \$204 million of operating profit, which is **5.7% to 7.2% of group operating profit and 9 to 24 basis points of group operating margin.** At the 25% decremental the actual record suggests, it costs **\$365 million, which is 12.8% of group operating profit and 79 basis points of group margin.** The point is the ratio rather than the absolute: **a 4.7% revenue event becomes a 12.8% profit event** once the decremental is set at the level Ferguson has delivered rather than the level it guides to.

The bear case on Ferguson is a margin case, not a revenue case. Revenue here is resilient; the operating leverage that turns growth into margin runs in reverse with more force than most readers expect, and that is the single fact a bull needs to hold in mind.

The only real precedent, and it is not the one usually cited

Ferguson's resilience case has rested on financial 2020. Through the fiscal period containing the March to July 2020 shutdown, revenue rose 1.1%, adjusted operating profit rose 3.1%, adjusted operating margin rose 16 basis points and adjusted diluted earnings per share went from \$4.90 to \$5.04. That is a genuinely impressive result and it validates the repair and maintenance weighting of the revenue mix.

It is also not analogous to the risk being discussed. Financial 2020 was a one quarter shock followed immediately by a stimulus funded housing boom. The relevant precedent is a multi year construction recession, and there is exactly one in this company's history.

Ferguson was formerly Wolseley plc. Between financial 2007 and financial 2011 it went through the following:

Measure	Peak	Trough	Decline
Group trading profit	£877m (FY2007)	£447m (FY2009)	-49.0%
Group trading margin, continuing basis	5.3% (FY2008)	3.1% (FY2009)	-220bp
Ferguson US revenue	\$11,226m (FY2008)	\$9,143m (FY2009)	-18.6% in one year
Ferguson US trading profit	\$794m (FY2008)	\$479m (FY2009)	-39.7% in one year
Ferguson US trading margin	7.1%	5.2%, then approximately 4.6% (FY2010)	-250bp

The US business, which is the business Ferguson is today, lost **18.6% of revenue and 39.7% of trading profit in a single year**. That is a deleverage ratio of **2.1 times**, and it is the most useful single number in this section because it is an observed outcome rather than an assumption.

The operational response was not incremental. Wolseley closed roughly **900 branches** across financial 2008 and 2009, removed roughly **17,000 people in eighteen months**, took approximately **£866 million to £934 million of cumulative exceptional charges**, disposed of Stock Building Supply and a long list of European businesses, and **raised approximately £1 billion of net new equity in March 2009** through a firm placing and rights issue at 400 pence, eleven new shares for every five held. The recovery was slow: group trading profit was £447 million in financial 2009 and £450 million in financial 2010, effectively two years at the bottom, and **financial 2012 trading profit of £665 million was still 24% below the financial 2007 peak, five years on**.

The honest structural rebuttal, made properly. The business that produced the worst of the 2008 damage was **Stock Building Supply**, Wolseley's US building materials division, which went from \$4,596 million of revenue and \$86 million of trading profit in financial 2007 to \$3,471 million and a **\$246 million trading loss** in financial 2008, and **was disposed of in financial 2009**. Ferguson no longer owns the new construction weighted building materials business that broke. That is a genuine, evidenceable change in the risk profile.

It is not a reason to discount the 2.1 times deleverage ratio, because that ratio came from the plumbing and heating business Ferguson still owns and still operates.

One claim that circulates about this period does not survive checking and is not used here. The idea that new construction was roughly 70% of revenue in 2008 against roughly one third today rests on a 72% figure in Wolseley's financial 2008 announcement that refers **only to Stock**, which was £1,735 million of £16,549 million of group revenue, or **10.5%**. No Wolseley report of that era discloses a group level new construction versus repair and maintenance split; the earliest located is a March 2012 half year presentation showing group repair and maintenance at 56% and new residential at 20%.

What that precedent does to today's balance sheet

Applying Wolseley's actual financial 2009 experience to Ferguson's current balance sheet, with buybacks and the dividend both suspended as they were in 2009, produces the following:

Stress variant	Peak net debt to adjusted EBITDA
Entry position, 31 March 2026	1.03x
Clean balance sheet through the stress	1.06x
With FloWorks acquired and on the balance sheet	1.45x
Plus roughly \$0.9bn of Wolseley scaled cash exceptional charges	1.77x

All three variants remain inside Ferguson's own stated through cycle target range of 1.0 to 2.0 times, against Wolseley's 73.5% gearing before its rights issue. On this test, Ferguson clears the only genuine multi year construction recession in its own history without needing equity.

The mechanism deserves naming, because it is a real structural feature of distribution. Working capital runs at roughly **15% of revenue and is pro cyclical**, so an 18.6% revenue decline **releases roughly \$913 million of cash** in the year it happens. A distributor's downside is cash generative at exactly the moment it is profit destructive, which is why the profit and loss statement overstates the danger to the balance sheet, and why cash conversion swung from 54% in financial 2022, a plus 25.3% revenue year, to 144% in financial 2023.

Concentration in one vertical

Data center revenue is roughly **3.0% to 4.5% of Ferguson**. A 50% contraction in that vertical costs 1.5% to 2.25% of revenue, which the company would absorb without difficulty.

What it would not absorb is the effect on the growth rate. Ferguson grew 5.0% in calendar 2025 with essentially no help from the market, and Commercial and Mechanical, which carries the data center exposure, grew 18% against a business growing 5%. Strip that vector out and the remainder grew low single digits, below the threshold at which any margin expansion is available. **The concentration risk here is not to revenue. It is to the mechanism.** The disclosed early indicator is Commercial and Mechanical backlog, currently up more than 18%.

Three specific threats

Home Depot's SRS Distribution completed the acquisition of Mingledorff's on 11 May 2026, entering wholesale HVAC distribution aimed at professional customers behind a stated \$1.2 trillion addressable market. It lands directly on Ferguson's weakest growth pillar: roughly 5% share of a category whose revenue fell 1% in calendar 2025, where the focused incumbent also fell and earns a higher operating margin.

FloWorks is five times larger than any deal in Ferguson's disclosed playbook, priced at roughly 1.6 times revenue against roughly 1.06 times historically, with an implied unsynergized entry multiple of roughly 13.9 times against a disclosed program range of 7 to 10 times. It takes Ferguson outside a model built for ten to three hundred million dollar family businesses. RBC, Oppenheimer and Jefferies flagged integration risk independently. It has not closed.

Own brand expansion is in direct tension with the supplier relationship the moat rests on.

Ferguson discloses the tension itself, and no source identifies where the ceiling binds. A company positioning itself as the best path to market for its suppliers has a structural limit on how much of its own shelf it can take, and nobody knows what that limit is.

The threat nobody answers

An entrant does not need to replicate Ferguson's network to hurt it. It needs to take the dense, profitable metropolitan markets and leave the fragmented long tail.

That is the exact inverse of the moat described in the Competitive Advantages section: Ferguson's cost to serve advantage is concentrated in dense markets, and its returns in the long tail are thinner by construction. A focused entrant that accepts Ferguson's price and matches its service in a handful of high value metros does not need to beat the network. It needs to beat one branch at a time, in the places where beating a branch is worth the most.

No source consulted for this report, bull or bear, offers a rebuttal to this argument. It is recorded here as a genuine open risk rather than answered with an assertion, and a reader who wants to hold a bear position on Ferguson would be better served by this line of attack than by any of the ones currently in circulation.

Two risks that are overstated

Amazon and e-commerce disintermediation. For the reasons set out in the competitive section, same day delivery of a three hundred pound condensing unit to a job site is not a parcel logistics problem, and Facilities Supply, the one category where Amazon is genuinely competitive, is where Ferguson holds 1% share. This risk is repeated far more often than the evidence supports.

The balance sheet. Net debt to adjusted EBITDA of 1.0 times against a stated 1.0 to 2.0 times target, roughly **\$3.1 billion of capacity to the top of the range**, \$2.4 billion of undrawn committed facilities, a Moody's Baa1 stable rating, and FloWorks taking leverage on close to roughly 1.5 times, against the 1.45 times peak the stress test above reaches with the deal on the balance sheet. The balance sheet is a buffer against the operating risk described above, not a source of risk in its own right.

Four questions nobody is asking

These are recorded because the answers would move the assessment more than anything currently being debated about this company.

Is Ferguson's own \$340 billion market estimate reliable? It did not move for four years through significant construction inflation, every third party citation traces back to Ferguson, and it rose only when an acquisition made a larger figure convenient.

Does the fall in return on capital employed from 40.4% to roughly 29.4% matter? No analyst raised it across twelve calls, and the answer determines whether the moat is widening or narrowing.

Where does the own brand ceiling bind? Ferguson discloses the tension and quantifies neither side of it.



Do 650 completed HVAC counter conversions produce any revenue at all? No revenue per counter metric has ever been disclosed, and none has ever been requested. The entire first growth pillar rests on infrastructure whose output has never been measured in public.

What all of that is worth, and what the market is already paying for it, is the subject of the section that follows.

Valuation

All figures here are struck at **\$234.33, the closing price on 31 July 2026**, and discounted at **9.5%**, the long run nominal total return on US large capitalization equities and therefore what an investor forgoes by owning Ferguson instead of the index. This report expresses no price target and no recommendation.

Two things about that reference price need saying. Ferguson's addition to the S&P 500 was announced after the close on 31 July, and the stock gapped to **\$250.08 on 3 August, up 6.72% on roughly eight times normal volume**, ahead of inclusion at the open on 5 August. The reference price is clean of that mechanical demand, which makes it the better analytical anchor and means **the multiple in this report is below the one a reader will see on a screen**. And nothing in this section reflects the second quarter results reported on 10 August 2026, or the subsequent fall in the share price to \$223.22 on 9 September. The update section at the front of this report restates the figures below at that price; every requirement in this section becomes easier to meet.

Where Ferguson sits against its own history

The most useful valuation fact about Ferguson was unavailable at the start of this work.

Trailing multiple	Trough	Median	Peak	At 31 July 2026
Price to earnings, on trailing GAAP earnings	12.49x (July 2022)	22.97x	25.84x (July 2024)	23.33x
Enterprise value to EBITDA	approximately 8.5x	15.39x	17.00x	15.41x

Ferguson trades at its own four year median on both measures, neither cheap nor expensive against its own record. On a second, independently compiled source with a five year window, the median is **19.82x** and the average **18.97x**, which matters a great deal and is returned to below.

A related finding disciplines a story that circulates. Ferguson's history contains four events that might reasonably have caused a re-rating: the move to a primary NYSE listing in May 2022, US domiciliation in August 2024, cancelation of the London secondary listing in July 2026, and S&P 500 inclusion in August 2026. **Three of the four moved nothing**. The NYSE listing was followed by the multiple trough five months later. US domiciliation coincided with the **peak** price to earnings ratio of the whole window and was followed by an 11.3% price decline over the next quarter. The London cancelation moved the stock minus 0.32% on announcement and minus 1.29% on effectiveness, on the lightest trading volume in the sample. **The structural simplification re-rating narrative is not supported by the price record**. Only index inclusion moved the stock, and an index fund is a mechanical buyer rather than a judgment about value.

One warning applies to any third party multiple quoted for this company. The fiscal transition produces a nonsense annual figure for the period labeled December 2025, a price to earnings ratio above 100 times, because a full market capitalization is divided by five months of earnings. Quarterly readings are the clean ones.

What the price already assumes

The most demanding test of a valuation is not what the analyst's model produces but what the market's price requires. Two versions were run, each holding one of the thesis's two load bearing variables constant and solving for the other.

Holding adjusted operating margin flat forever at the calendar 2026 guidance midpoint of 9.6%, so that the operating leverage argument in this report never delivers a single basis point, the price of \$234.33 requires revenue to compound at 6.15% a year.

Set that against what Ferguson has told the market: a stated through cycle algorithm of **6% to 11%**, consensus for calendar 2026 implying 4.54% growth on the calendar 2025 base, guidance of low to mid single digit, and delivered growth of 7.78% compound over financial 2021 to 2025 and 2.50% over financial 2022 to 2025.

6.15% is the bottom of the stated algorithm. Not below it. **At this price, the buyer is paying for management to do what management says it will do.** The margin expansion, the HVAC counters, the data center content and the own brand mix shift are not free options attached to a cheap price; they are the difference between the bottom of the algorithm and the middle.

The second pass is harder still. **Holding revenue growth at the 4.5% guidance and consensus rate and solving for margin, the price requires an adjusted operating margin of 10.39% by calendar 2030.** That is above management's own stated milestone of more than 10%, above the top of the observed five year range of 9.18% to 10.33%, and above anything Ferguson has printed in any year in this dataset.

But those two passes are the extreme corners of a trade off, not two independent readings, and the middle is where the answer lives. Growth and margin substitute for one another, and management's algorithm calls for 10 to 30 basis points of margin expansion a year. Running the same reverse calculation across that range:

Margin path assumed	Revenue growth the price requires
Flat at 9.60%, the operating leverage never works	6.15%
Plus 10 basis points a year, to 10.00% by 2030	5.29%
Plus 20 basis points a year, to 10.40% by 2030	4.48%
Plus 30 basis points a year, to 10.80% by 2030	3.70%
Plus 40 basis points a year, to 11.20% by 2030	2.95%

This materially changes how demanding the price looks. At 20 basis points a year, the middle of management's own stated ambition, the price requires 4.48% revenue growth, **below** calendar 2026 guidance and **below** consensus. At 30 basis points it requires 3.70%, below anything Ferguson has delivered in a normal year.

So the accurate statement is not that Ferguson is expensively priced. It is that **the price is demanding on growth alone and undemanding as soon as the operating leverage does any work at all.** The flat margin case is the harshest available reading rather than the central one, and a reader who believes the margin mechanism described here should anchor nearer the middle rows of that table. The base case does exactly that, assuming roughly 16 basis points a year alongside 6.2% growth: it clears the required rate by about a point and a half, and that gap is the 1.6 percentage points of annual excess return.

So the two passes are not two verdicts. They are the two ends of one line, and where a reader sits along it is a judgment about the operating leverage rather than about the price. Believe the mechanism still works and the price is asking for less than the company guides to. Believe it does not and the price is asking for the bottom of an algorithm that has not been delivered in three years. And this is the pre-inclusion price: on the \$250.08 a reader can actually transact at, every requirement above rises further.

Scenarios

The model behind these figures is a through cycle return decomposition with a discounted cash flow cross check, built on the mechanism described earlier: **margin is an output of revenue growth, not an independent input.** Bear case decrementals are set at 22.5%, well above management's stated 11% to 14% incremental, because the observable record does not support using an incremental rate as a decremental.

Scenario	What it assumes	Annualized total return	Against the 9.5% index
Bull	Algorithm near the top of its range, exit at Ferguson's own four year peak of 25.84x	+17.01%	+7.51pp
Base	Algorithm at the bottom of its range, exit at Ferguson's own median of 22.97x	+11.10%	+1.60pp
Bear	Two years of revenue decline, buyback suspended, exit at 19.82x	-3.52%	-13.02pp
Severe	Wolseley's actual 2009 experience applied to today, exit at Ferguson's own 12.5x trough. Not a forecast	-14.22%	-23.72pp

The base case decomposes as follows, and every component is a formula rather than an assertion: revenue compounding at 6.20%, margin expansion adding 1.45 percentage points, giving operating profit growth of 7.64%; share count reduction adding 1.94 points and net financing effects a little more, giving adjusted earnings per share growth of 9.72%; a dividend yield contribution of 2.08%; and a multiple contribution of **minus 0.32%**, because the exit multiple is essentially the entry multiple.

The base case beats the index by 1.6 percentage points a year, with the multiple doing nothing at all. That is a real result and a thin one: it sits inside the error bars of almost every assumption in the model.

The sensitivity that matters most

The base case's advantage over the index depends almost entirely on which of two equally sourced historical medians is used for the exit multiple, and this report will not bury that.

Exit multiple used	Source	Base case return	Beats the index?
22.97x	Four year quarterly series, fourteen observations	11.10%	Yes, by 1.6pp
19.82x	Second source, five year median	8.02%	No
18.97x	Second source, five year average	7.13%	No

On two of the three defensible anchors, Ferguson at \$234.33 does not beat the index. This report uses 22.97x because it is the only series whose underlying quarterly observations could be inspected and reconciled against share counts and reported earnings. That is a real reason, and it is also the highest of the three: a reader who prefers the longer window should conclude that Ferguson is priced to match the index rather than to beat it.

The broader picture is best read from a grid, in which a reader who disagrees with the assumptions above can find their own cell. Annualized total return at \$234.33, by revenue growth and exit multiple:

Exit P/E	4% growth	5%	6%	7%	8%	9%
18.0x	3.1%	4.3%	5.6%	6.8%	8.0%	9.2%
20.25x	5.4%	6.6%	7.9%	9.2%	10.4%	11.6%
22.5x	7.4%	8.8%	10.0%	11.3%	12.6%	13.9%
24.75x	9.4%	10.7%	12.0%	13.3%	14.6%	15.9%
27.0x	11.2%	12.5%	13.9%	15.2%	16.5%	17.9%

Everything below and to the left of roughly the 22.5x row at 5.5% growth fails to beat the index.

The region in which Ferguson is a clearly better proposition than an index fund is real, and it is not large.

The cash flow cross check, and where it disagrees

A discounted cash flow built on the same assumptions, discounting unlevered free cash flow at 9.5% and exiting at Ferguson's own median enterprise value multiple, produces **\$251.11 a share**, or 7.2% above the reference price. On a lease exclusive convention it produces \$251.73, effectively the same answer.

Two things should temper how much weight that number carries.

The first is that **terminal value is 88.2% of enterprise value**. Almost none of this valuation comes from the five years anyone can forecast. That is normal for a business of this kind, and it is the honest measure of how much of the answer is an assumption about year six and beyond.

The second is that the same model, run on a conventional 2.5% perpetuity growth terminal value instead of an exit multiple, produces **\$150.11 a share, 35.9% below the reference price**. The two terminal conventions disagree by roughly 40% of the answer, and averaging them would be worthless. The choice is the reader's and the reasoning should be visible.

This report uses the empirical multiple, for three reasons. Ferguson's four year distribution is an observed fact about how this business has been priced, where a perpetuity formula is a construct. A perpetuity formula with a fixed reinvestment assumption systematically understates a business earning 29% to 31% on capital that recycles cash into acquisitions at 7 to 10 times EBITDA. And this work has fourteen quarterly observations of the actual multiple against none of the market applying a Gordon growth model to this name. **A reader who requires a perpetuity consistent terminal value should conclude that Ferguson is materially overvalued at \$234.33, and the number to do that with is above.**

One further caveat on internal consistency. The decomposition and the exit multiple discounted cash flow agree closely, and they should: an exit price to earnings ratio and an exit

enterprise value to EBITDA multiple drawn from the same fourteen observations of the same market price are not independent methods. **The only genuinely independent terminal convention in this work is the perpetuity one, and it disagrees.**

The downside, stated properly

The bear case above returns minus 3.52% a year, a mild outcome for a scenario containing two years of revenue decline. Its exit multiple of 19.82x is only about 15% below the entry multiple on a like for like trailing GAAP basis, and Ferguson **actually traded at 12.49 times in July 2022 and roughly 10.84 times in October 2022**, during a disruption considerably milder than the bear case describes. Every exit multiple used in this report, including 22.97x, 19.82x, 18.97x and 12.5x and every row of the grid above, is struck on **trailing GAAP earnings** and converted to Ferguson's adjusted earnings basis inside the model.

Holding the bear case's operating path constant and moving only the exit multiple to Ferguson's own July 2022 trough takes the annualized return to roughly **minus 10%**. The honest reading of the bear and severe cases together is that **a real bear outcome for this business sits in the region of minus 10% to minus 14% a year, not minus 3.5%**, and the driver is multiple compression rather than operating collapse.

Against that, the balance sheet holds. On the Wolseley stress described in the risk section, peak leverage reaches **1.06 times** clean, **1.45 times** with FloWorks and **1.77 times** with FloWorks plus roughly \$0.9 billion of Wolseley scaled cash exceptional charges, all three inside Ferguson's own 1.0 to 2.0 times through cycle range. **Ferguson clears the only genuine multi year construction recession in its own history without raising equity, which Wolseley did not.**

A note on how to read any Ferguson multiple

Three different earnings figures are in circulation for the same company at the same date, and a price to earnings ratio quoted without naming the one it uses is not information.

Multiple at \$234.33	Struck on
22.15x	Calendar 2025 adjusted diluted earnings per share of \$10.58
20.81x	Calendar 2026 consensus earnings per share of \$11.26
23.33x	Trailing GAAP earnings per share of \$10.04

The gap between the first and third is roughly 5%, and applying a multiple sourced on one basis to earnings struck on the other is worth about **1.1 percentage points of annualized return**, which on a base case excess of 1.6 points over the index is most of the answer. That error was made once in the course of this work and corrected. It is worth knowing about, because the same error is embedded in a good deal of third party commentary on this company.

Investment Thesis

What has to be true

Ferguson is a high quality distribution business whose economics are better understood than they are usually described, and at \$234.33 it is priced for those economics to work as management says they will.

The mechanism is settled and this report regards it as verified. Gross margin is close to fixed, moving 32 basis points across five years; operating margin is not, moving 115. The whole of the difference is the absorption of a cost base that exists to keep a promise of same day availability and cannot flex inside a quarter. **Margin at Ferguson is a consequence of volume, not a lever management can pull.**

What is newer, and what this work establishes rather than assumes, is that **the mechanism is a threshold rather than a rate**. A cost base inflating by roughly \$270 million a year whatever revenue does requires close to three percent of revenue growth before a single basis point of margin expansion becomes available. Ferguson cleared that threshold once in four years, in financial 2022, when flow through arrived at 14.9%. Margin fell in each of the three years since.

The thesis therefore reduces to one question with an unusually clean structure. **Does Ferguson clear the growth threshold, and how often?** Everything else in this report is an input to that question.

The case that it does rests on four things that are evidenced rather than asserted. Ferguson has taken **300 to 400 basis points of share every year for three years into a market that has not grown**, corroborated from outside the company by construction spending data. Its competitive position is local rather than corporate, proved by its own disclosure of share ranging from 25% to 1% across seven categories on the same balance sheet. It executes cost plus pass through with a consistency no comparable distributor matches, across more than 1,700 locations and more than a million stock keeping units. And it buys roughly two percent of growth a year at a disclosed 0.86 times revenue across the 44 deals it published economics for, in a market fragmented enough to sustain that for decades.

The case that it does not rests on the fact that **it has not, for three years**, and that what is missing is market growth, which Ferguson does not control.

What the price requires

The valuation section sets this out in full. Holding margin flat forever, so that everything argued above delivers nothing, the price requires 6.15% annual revenue growth, the bottom of management's own 6% to 11% algorithm. **But growth and margin trade off, and the flat margin case is the extreme corner rather than the middle**. At 20 basis points of annual margin expansion, the middle of management's own ambition, the price requires 4.48% growth; at 30 basis points, 3.70%. Both are below guidance and below consensus. **So the price is demanding on growth alone and undemanding as soon as the operating leverage does anything at all**, which is another way of saying that the whole question is whether the threshold gets cleared.

This is not a mispricing thesis and this report does not argue that it is. Ferguson trades at its own four year median multiple. Three of the four events that might plausibly have re-rated it

moved nothing. The base case returns 11.1% a year against a 9.5% index alternative, an excess of 1.6 percentage points, and on two of three defensible historical exit multiples that excess disappears.

What the buyer at this price is acquiring is a business of demonstrably high quality at a price that assumes it performs roughly as management says it will. That is a legitimate proposition and, if the operating leverage reasserts, a comfortably profitable one. It is not the same proposition as a cheap stock, and conflating the two is how good businesses become bad investments.

Where this report differs from the consensus framing

Four conclusions here depart from the version of Ferguson in general circulation, and each is a correction rather than a matter of emphasis.

The margin story is a threshold, not a trend. The common framing treats operating leverage as a steady annual contributor. The record says it is binary around a growth rate of roughly five to six percent, which makes the base case more fragile than a smooth margin path implies, because the base case sits barely above the threshold.

The cyclical torque argument is half the size it is usually given. The residential leg is real: US residential revenue is flat on financial 2022 after three years of inflation, so volumes are materially below. The non residential leg does not survive contact with Census data, which puts the current decline in ex secular non residential construction at 1.1% nominal against 46.4% in 2008 to 2011.

HVAC is an option that has just started to pay. The infrastructure is built, on time, and paid for. At the analysis date the revenue was not there: minus 1% in calendar 2025 against a plus 10% comparative, in a category where the focused incumbent fell 4.98% and where Home Depot had entered by acquisition. **In the second quarter of calendar 2026 the group grew 11%, on a soft comparable.** That is the first evidence that the counters convert, and it is one quarter. The through cycle case has still never been tested by a revenue per counter disclosure, because none has ever been made.

The moat's best evidence proves something narrower than it is usually claimed to prove. A gross margin band of 0.32 percentage points, 3.7 times tighter than the tightest peer, is evidence of pass through discipline and systems quality, not of pricing power, because a constant gross margin percentage is precisely what mechanical cost pass through produces.

What would falsify this

Six things, in order of how much they would change.

The growth threshold is not cleared when the cycle turns. If residential and non residential both recover and Ferguson still cannot deliver six percent or better revenue growth with margin expansion, the algorithm was never real. This is the primary falsifier and everything else is downstream of it.

Margin fails to expand in a genuine upturn. If revenue growth returns to mid single digits and operating margin does not move, the operating leverage thesis is wrong.

HVAC share does not move once the category recovers. More than 650 counters are built and the dual trade trend is documented. If the category turns and Ferguson's HVAC growth

does not exceed it, the pillar was infrastructure without a customer proposition, and the roughly \$70 billion HVAC category, about a fifth of the addressable market Ferguson claims for itself, goes with it.

Return on incremental capital stays negative. Average capital employed rose roughly 31% between financial 2022 and financial 2025 while adjusted EBIT was flat to slightly down. That is defensible as capital committed ahead of a recovery. **It is a defense with an expiry date**, and if the next two years of recovery do not lift returns, the capital was misallocated.

Cherry picking works. A focused entrant that takes the dense metropolitan markets and leaves the fragmented long tail attacks the moat where it is most valuable and least defended, and no source located in this work rebuts it. If it starts showing up in Ferguson's share in its strongest categories, the local density argument narrows sharply.

FloWorks fails to integrate. Five times any deal in the disclosed playbook, at an implied unsynergized entry multiple of roughly 13.9 times against a stated program range of 7 to 10 times. The thing to watch is whether the \$45 million of expected synergies is confirmed on a future call, as the \$100 million restructuring saving was.

Conclusion

Ferguson is a better business than its financial statements make it look and a more expensive one than its multiple makes it look, and both statements come from the same fact.

The business looks ordinary because a nine percent operating margin on \$31 billion of revenue reads as thin. It is not thin. It is the residue of a cost base whose purpose is to make a part available today rather than on Thursday, and that cost base is the barrier. Judged the way a distributor should be judged, on gross profit earned per dollar of capital employed, Ferguson converts close to one to one and has earned between 28.5% and 40.4% on capital across the past seven years. The financial statements understate it because the accounting treats as expense what is economically the moat.

The stock looks reasonable because it trades at its own four year median on every measure available. That is also true, and it is why the valuation conclusion here is not a comfortable one.

A median multiple on a business at a cyclical low is only cheap if the cycle turns, and the price is asking for a version of that. Hold margin flat and the price needs 6.15% annual revenue growth, the bottom of the algorithm management itself describes. Let margin expand by the 20 basis points a year management aims at and the price needs only 4.48%, below both guidance and consensus. **The two variables trade off, and where a reader lands depends almost entirely on whether they believe the operating leverage still works.** This report argues that it does, that it is conditional on clearing a growth threshold, and that Ferguson is currently just below it.

What this work adds is mostly discipline rather than discovery. The margin mechanism is a threshold rather than a rate, and Ferguson has been below it for three years, which makes the base case more fragile than a smooth margin path suggests. The moat's best evidence, a gross margin band 3.7 times tighter than the tightest peer, proves pass through discipline rather than pricing power, and is stronger for the narrower claim. The fall in return on capital is mostly a financing artifact in the first year and mostly operating in the two after, and read through the cycle the company sits exactly where it sat in financial 2019. The cyclical torque argument keeps its residential leg and loses its non residential one. And the only genuine multi year construction recession in this company's history, which no other source on Ferguson appears to have retrieved, says that a serious downturn costs roughly two dollars of profit for every dollar of revenue, and that today's balance sheet absorbs it without an equity raise.

The honest summary is short. **The quality is established. The mechanism is understood and it is more conditional than usually described. The price assumes the mechanism works.** An owner at \$234.33 who is right about the business earns something in the region of eleven percent a year, roughly a point and a half better than the index, with the multiple doing nothing for them. An owner also right about a cyclical recovery, who gets a multiple at the top of its own range, earns considerably more. An owner wrong about the threshold being cleared loses money, and loses it faster than the revenue line would suggest, because the operating leverage that makes the bull case runs in reverse with more force than most readers expect.

Where the report is least certain, and where a reader should press hardest, is on three points: whether more than 650 HVAC counters produce revenue, which has never been disclosed and never been asked; whether the roughly 31% growth in capital employed since financial 2022 was committed ahead of a recovery or misallocated, which the next two years will settle; and whether a focused competitor can take the dense metropolitan markets and leave Ferguson



the long tail, which is the one line of attack on this company that no source consulted here has answered.

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