MOI GLOBAL

Adam Crocker

Chief Investment Officer, Logbook Investments

EUROPEAN Investing Summit

"Invert, always invert"

Finding value through implied expectations

EUROPEAN INVESTING SUMMIT 2022, HOSTED BY MOI GLOBAL

ADAM CROCKER, CFA

LOGBOOK INVESTMENTS, LLC

Logbook Investments

Layer insights from books to augment fundamental research

- "Logbook" is a nod to the checklist-based principles of aviation, 15-page writeup accompanies every position
- Journal writing is integral to Logbook process, improves clarity of thought and helps guard against behavioral biases
- Manager's perspective augmented by compiling nearly a decade of book summaries, his original "Logbook"

- Value oriented long-short equity fund
- Long biased, target ~12 positions, no leverage
- Founded by Adam Crocker, CFA in May 2016
- Manager has previous experience at Morgan Stanley Investment Management and Metropolitan Capital Advisors; graduate of Columbia Business School Value Investing Program

Understanding implied expectations

- "Invert, always invert" often cited by Charlie Munger, is originally from 19th century mathematician Carl Jacobi, who posited that many complex problems could be clarified by expressing in reverse
- Mauboussin and Rappaport's Expectations Investing is an insightful book on the subject
- Method for focusing on key issues
- Enables investors to use security price as a tool, quantify the potential irrationality of "Mr. Market"

FERGUSON®

Ferguson plc (FERG.LN)

MACRO FEARS OFFER CHANCE TO BUY QUALITY PLUMBING DISTRIBUTOR MISPLACED IN “EUROPEAN” BUCKET

Ferguson thesis

- High quality distribution business trading at discount to history due to macroeconomic concerns, despite improved focus
- Balance sheet and geographic focus much improved versus prior crises
- Business mix increasingly focused on non-discretionary plumbing & HVAC
- Company mislabeled as "European," recent US listing well received, but currently surpassed by macro fears

Retooled to focus on USA + Activist investor involved + Structural underlying growth + Potential optionality = Compelling Investment Opportunity

To oversimplify, FERG is like Home Depot for plumbers and contractors trading at trough multiple despite its best-ever business mix

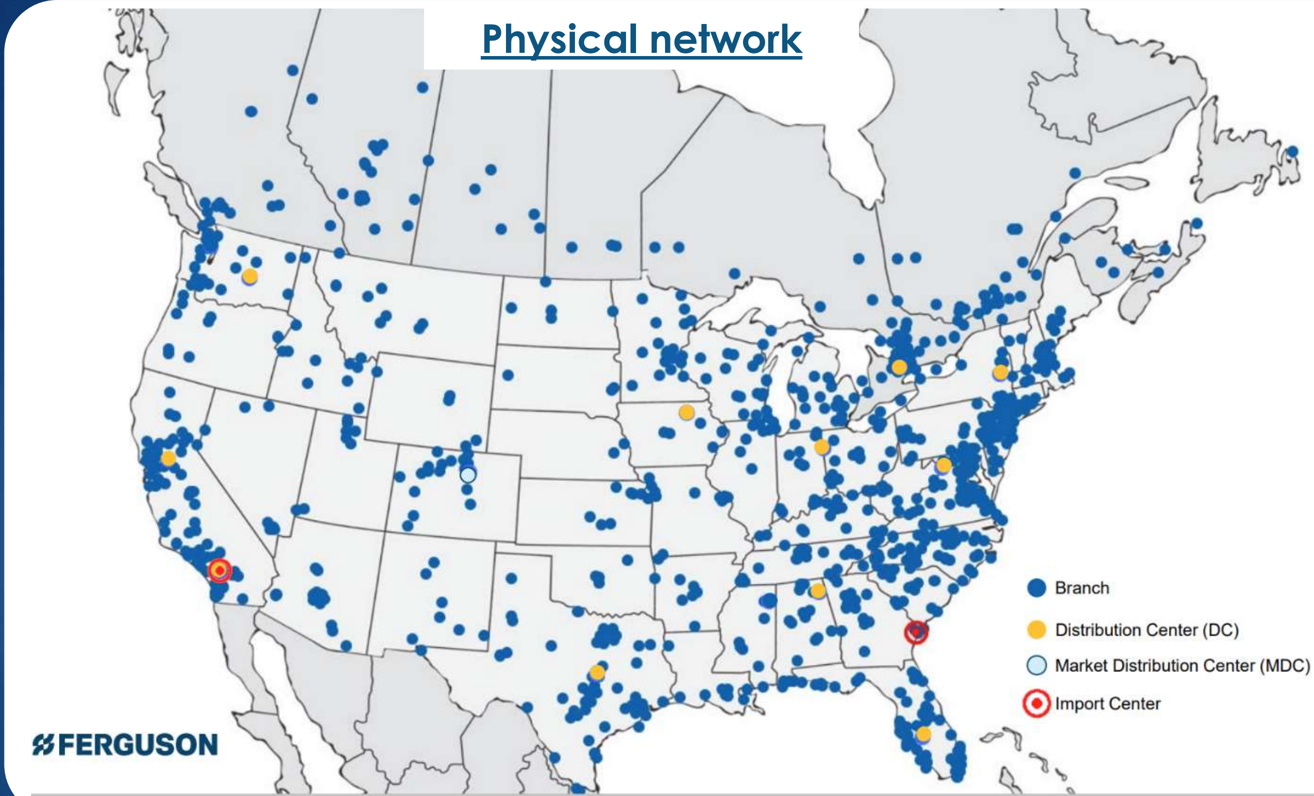
Business model: bring order and knowledge to fragmented market

- Dense location footprint is excellent route to market for suppliers; convenient locations meet customers' service needs

Connects fragmented supplier and customer markets in plumbing supply, providing useful advice and convenience to skilled tradesmen

Local economies of scale in NA

Physical network



How orders filled

51%
Delivered from branches

21%
Collected from branches

16%
Delivered from suppliers

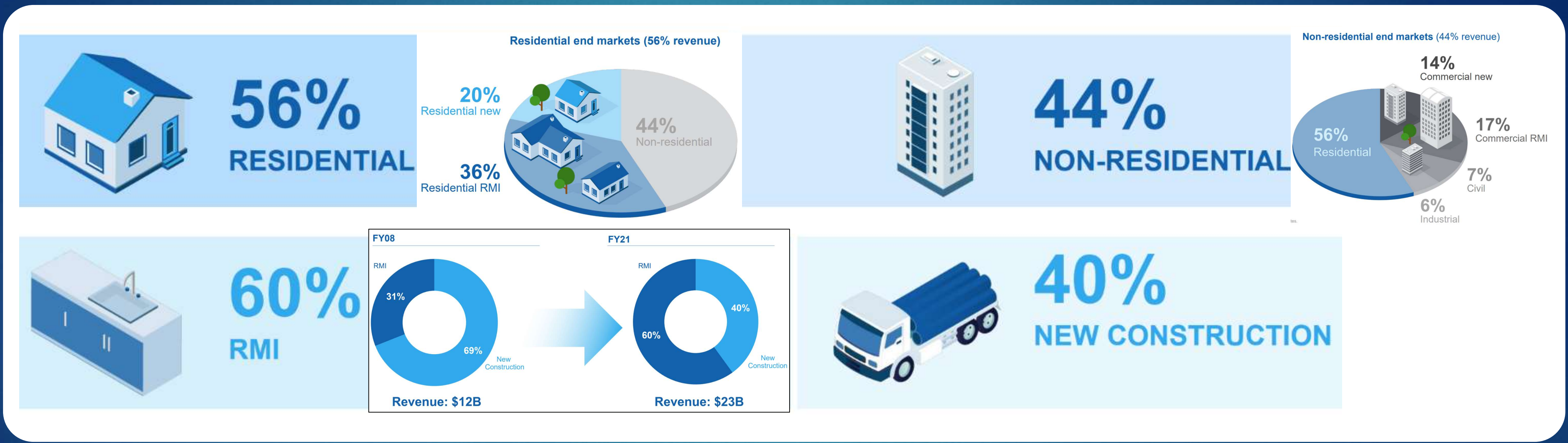
12%
Delivered from DCs

Customers buy ~70/20/10 branch/e-comm/showroom

Strong presence near population centers enables flexible fulfillment, most customers travel <20mi to branch

Business mix

Repositioned away from new construction since last era of macroeconomic distress



Strong mix of repair, maintenance & improvement (RMI) and non-residential revenue should offer greater resilience through cycle

Ferguson history

Founded in 1953 in greater Washington DC area, focused on servicing small plumbers; Ownership and service mentality ingrained, with early branches named after local managers

1953 FERGUSON

Founded by Charles Ferguson, Ralph Lenz, Johnny Smither with $165k & 2 locations, serving local plumbers

1954

Began opening supply depots to support branch locations

1969-89

David Peebles' tenure as first company President. Philosophy of aggressive expansion

1982 WOLSELEY

Acquired by UK-based Wolseley. FERG had 76 locations in 11 states, $142m sales

1989-2001

Charlie Banks' tenure as Ferguson CEO, started as first trainee. Nearly 200 locations early in tenure to 500+ by 2001 promotion to Wolseley Group CEO.

2008+

Financial crisis prompts rights issue and refocus on highest ROIC divisions with best LT prospects, namely plumbing & heating, exited most building materials

2017-18

Name change from Wolseley to Ferguson, reflecting impact of dominant subsidiary in 2017

Divested Nordic business for €1B in 2018, returned $2B via dividend & buyback

2019-Present FERGUSON

Trian discloses 6% stake Jun19

Made plans to de-merge UK, list in US

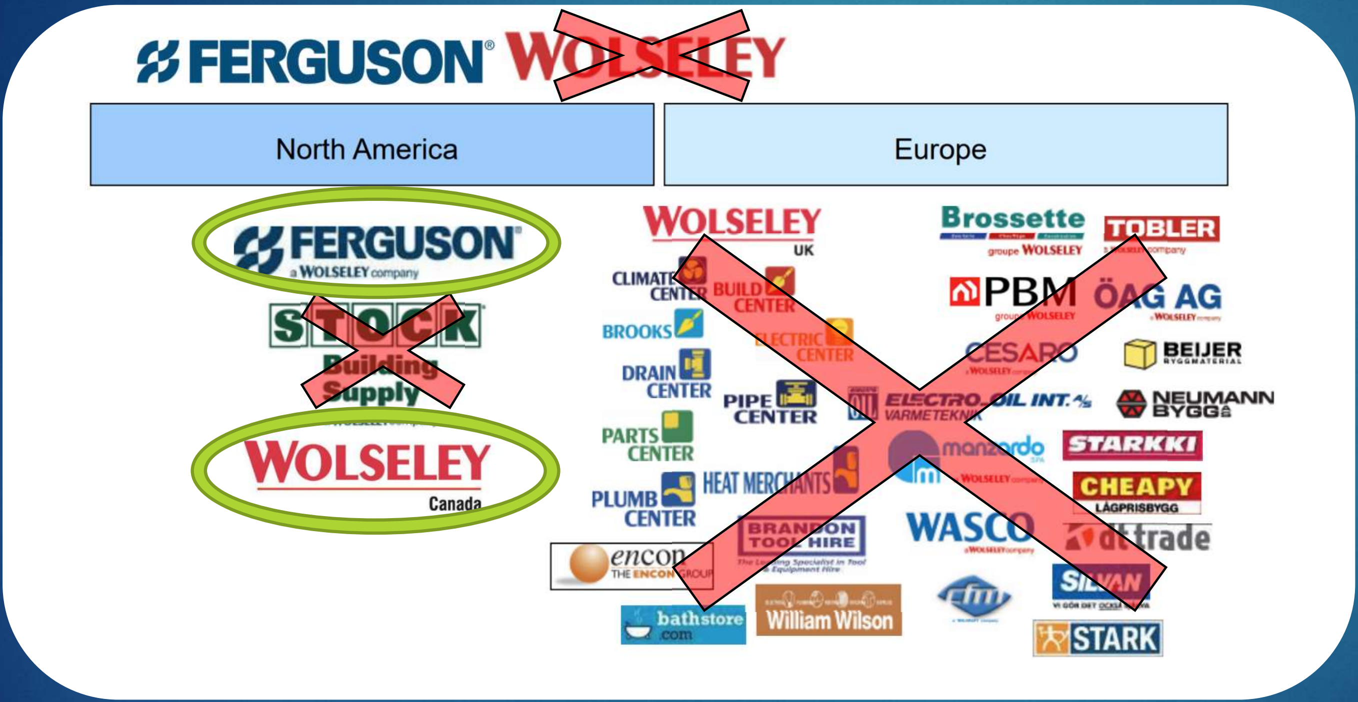
Sold Wolseley to CD&R Jan21 for $420m cash

US primary listing Spring22

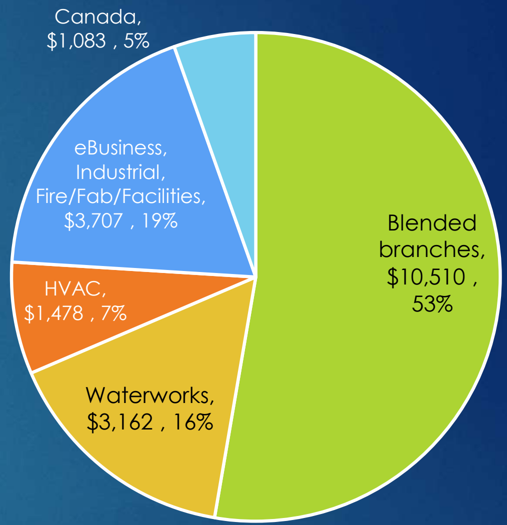
To know where you're going, must understand where you've been; core Ferguson has consistent strategy for nearly 70 years

Ferguson dramatically overhauled

2008 investor presentation



NA revenue mix, FY20*



*No longer break down by these segments, but included because makes more logical sense to me

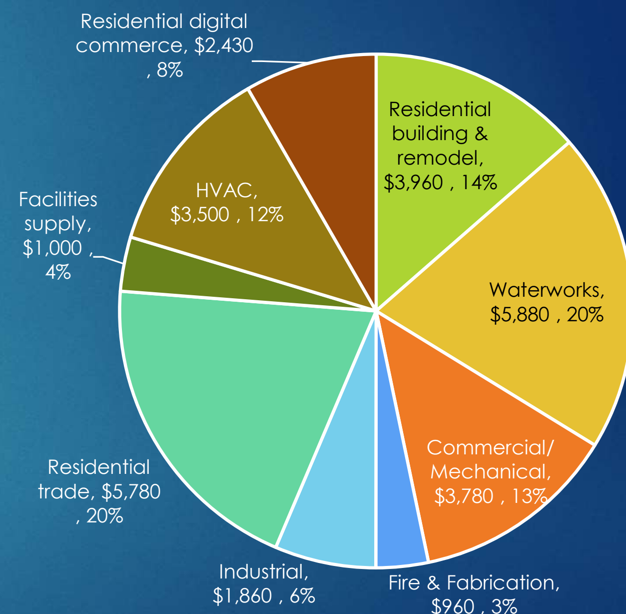
Now a single US-focused brand, mostly plumbing-related products

Strong share in 9 key end markets

Strong presence in highly fragmented end markets

Note: added logos of notable direct competitors, where applicable

Approx revenue, FY22



Most competition is local, with Ferguson structurally advantaged due to scale

Financial overview

Revenue and EBIT %

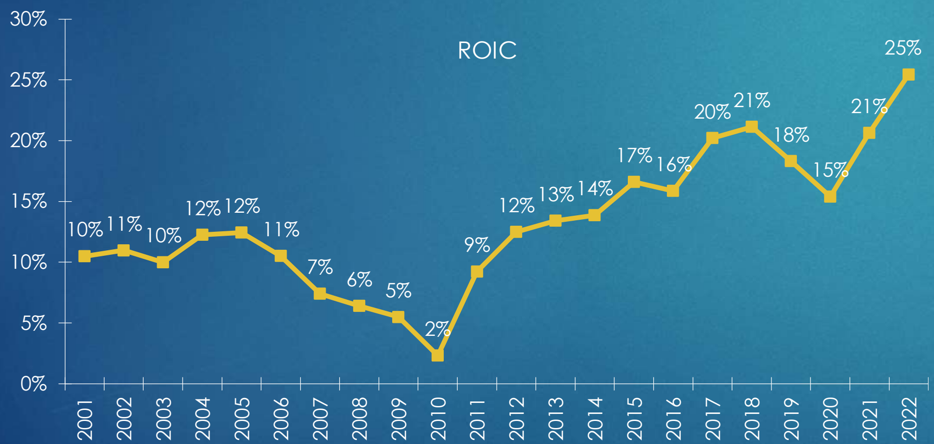
	Reported revenue	Cont. FERG rev
5yr CAGR	8.2%	**11.3%**
10yr CAGR	3.0%	**9.9%**
21yr CAGR	4.9%	**9.4%**
FY07-09 revenue decline	-28.2%	**-16.6%**

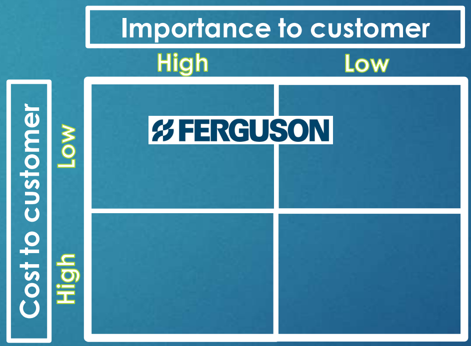
M&A contributes 2-3% to annual revenue growth

Continuing Ferguson a more predictable business than historical financials suggest; divested Wolseley divisions masked growth

Quality of business

- High quality, critical to customer operations
  - Scale matters: better terms with suppliers, location density for logistics and customer convenience, career stability and advancement opportunities
  - Service offering a key source of advantage
  - Gross margins steady at 27%+ throughout financial crisis; passed along high-teens cost inflation in FY22
- Well positioned in "cost/importance" matrix





"Size is not the same as economies of scale, which arise when the dominant firm in a market can spread the fixed costs of being in that market across a greater number of units than its rivals"

"If you can't count the top firms in an industry on five fingers, there are likely no barriers to entry"

"Brand is important, but only creates advantage when frequent purchases establish habit strong enough to encourage captivity."

"If the leading company has held its position over many years, that strongly suggests the existence of competitive advantage"

- Bruce Greenwald & Judd Kahn, Competition Demystified

In-stock of critical materials and quality advice are key elements of service offer enabled by scale

Lessons from branch visits

"It's not for everybody, but it's *for* everybody" –Counter Associate

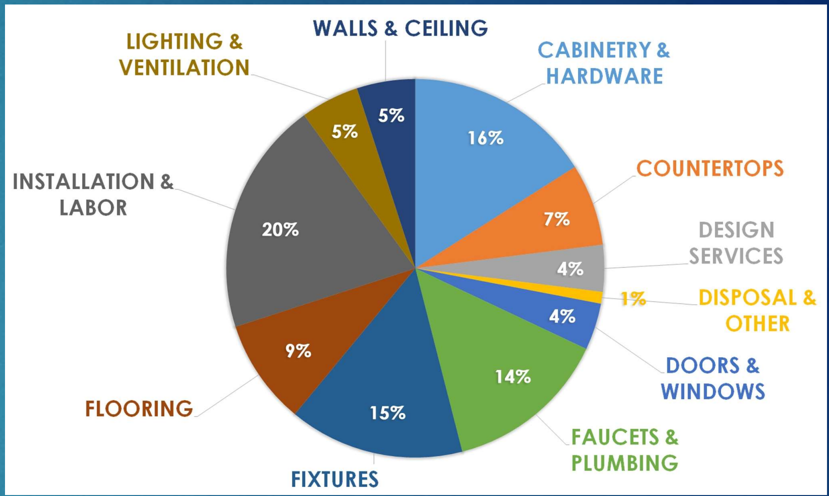
- Knowledgeable staff, many associates 10-30+ year tenures
  - Multiple continuing education offerings available
  - ***Deep expertise is critical in offering advice to pros***
- Many customers greeted on first name basis, common to overhear discussions around product advice
- Scale matters; size of warehouses and truck fleets offer deep inventory availability
- Branch focused on satisfaction, safety, private label
- Competitors tend to have smaller infrastructure, less self-serve, less experienced staff
- Associates appreciate growth opportunities available, view Ferguson as long-term career

Scale offers physical advantages, but also attracts ambitious staff, which is lifeblood of service offering; visits provided deeper understanding

Unit economics (illustrative example)

- If we assume bathroom remodel costs $20k, FERG products ~1/3 of input costs
  - $7,000 Ferguson products
  - Scale contractor maybe buys for $5,600
- Competitor conversation noted ~5-10% minimum discount versus retail
- Largest accounts may achieve 15-20%+ discount versus smallest
- Labor is ~65% of FERG costs, biggest lever for company to offset inflation

Plumbing, fixtures, HVAC moderate portion of bathroom remodel cost

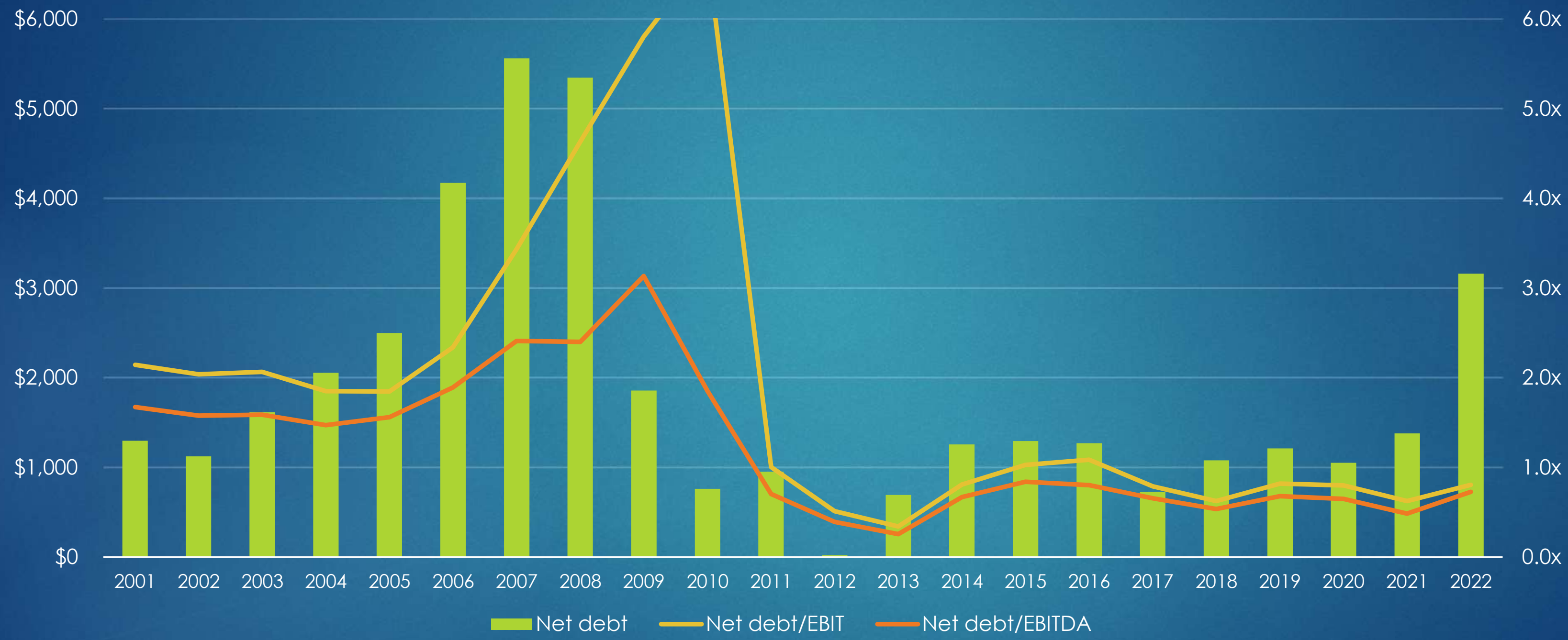


Source: National Kitchen & Bath Association
https://homeguide.com/costs/bathroom-remodel-cost#calculator

Ferguson products a real expense, but limited opportunity to substitute meaningfully cheaper alternatives

Conservative balance sheet

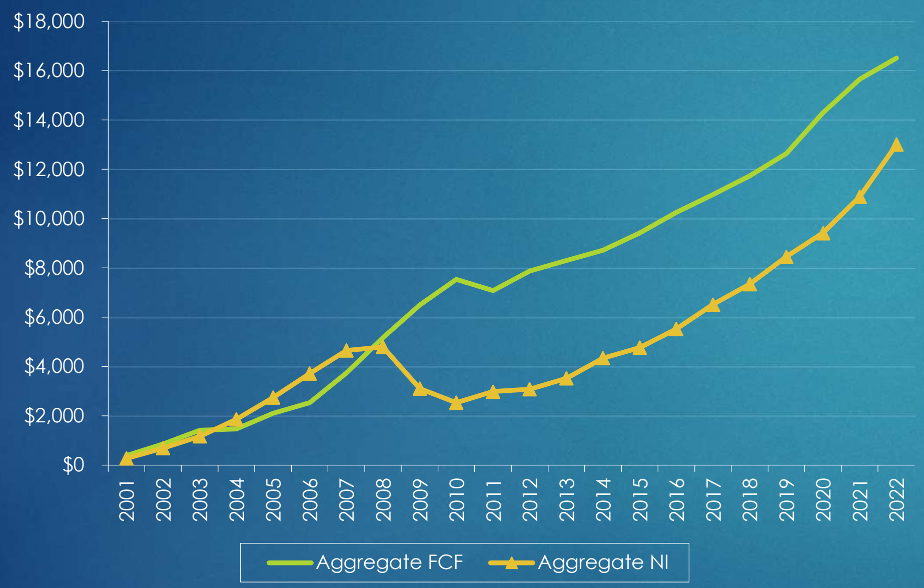
<1x leverage, plan to operate toward lower end of 1-2x target net debt/EBITDA range; ~4% avg cost of debt, 6yr avg maturity



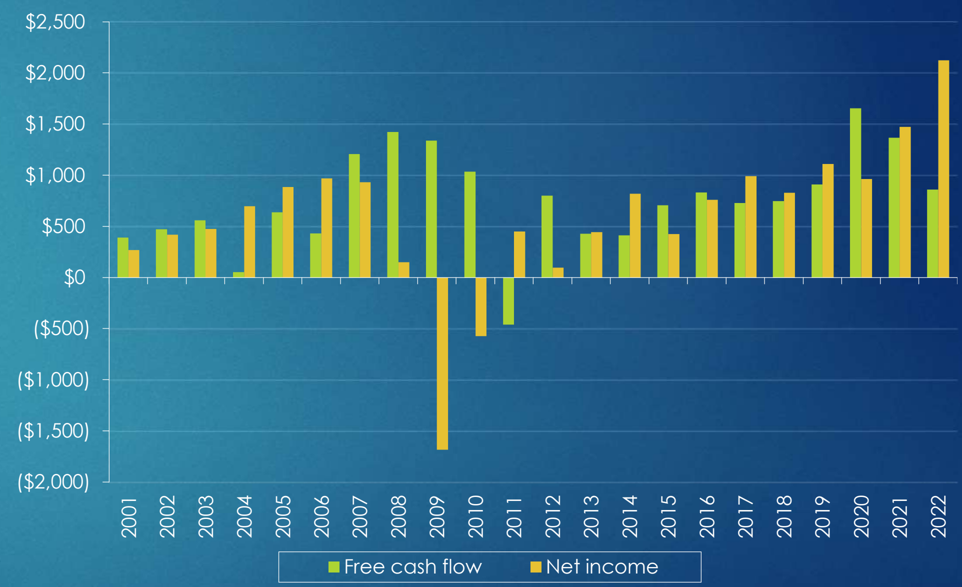
Much stronger balance sheet than prior periods of economic stress; debt reduced in 2009 via equity raise and building supply divestiture

Strong cash generation

Aggregate FCF vs. Net income



Annual FCF vs. Net income

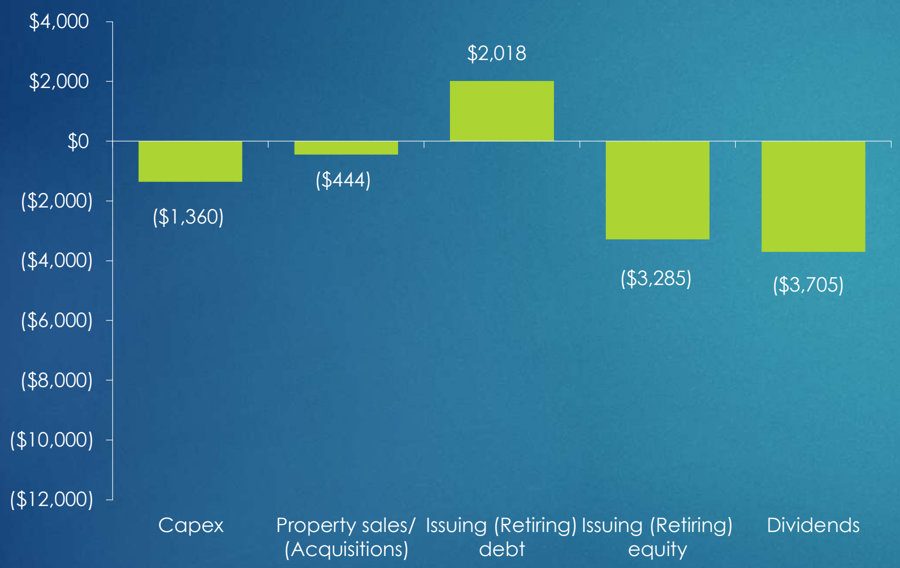


Ferguson's *intrinsic value* underpinned by aggregate FCF generated relative to enterprise value

Use of cash

FCF priorities: 1) invest in business [enhance branches/DCs, flex WC to win customers], 2) sustained dividend growth, 3) tuck-in M&A to add geographies and capabilities, 4) $1B remaining buyback authorization

Last 5 years

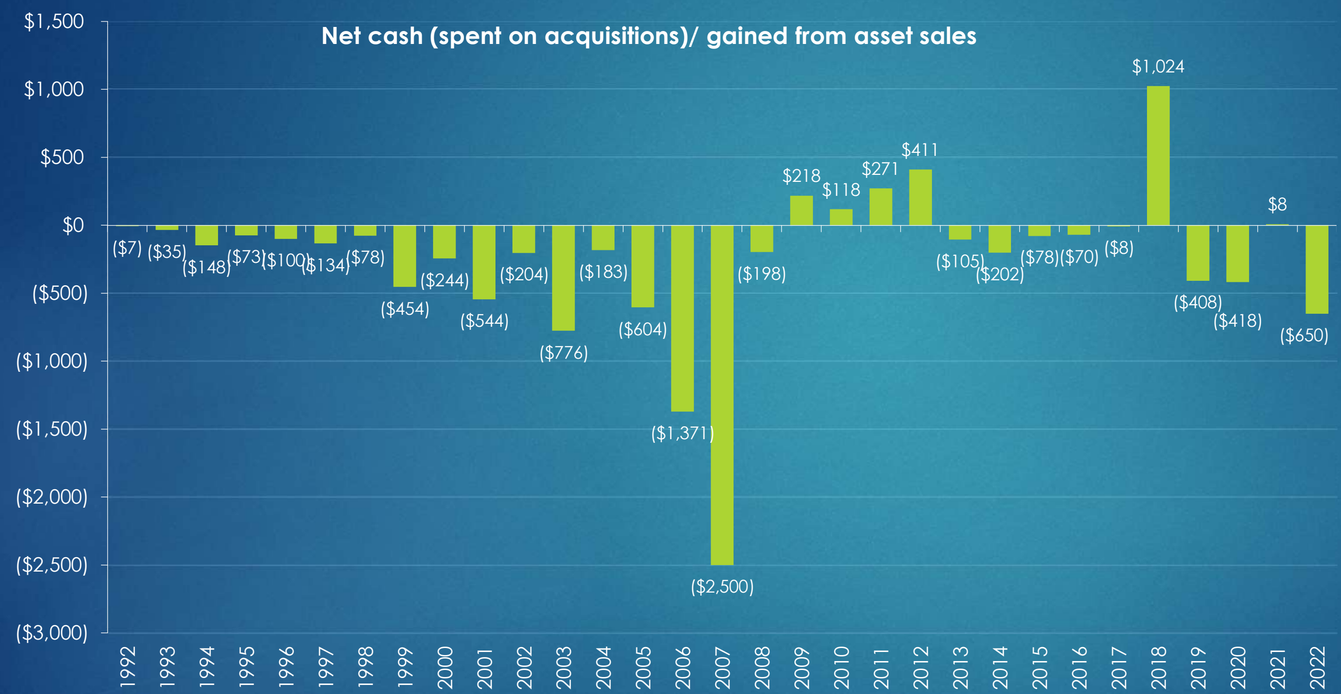


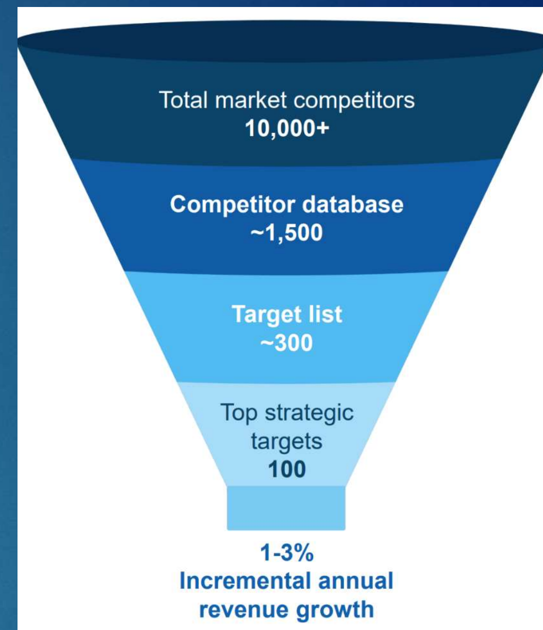
Last 41 years

"Net" acquisitions lower in recent years due to divestitures; increasingly shareholder friendly allocation

Consistent acquirer

Last 5 years, deals averaged 7-10x EBITDA with 2-3x turns of synergy, added 2.5% to sales growth, target 20% returns within 2yrs





Maintain potential target database ($10-300m rev), sorted by business and geography, refined yearly.

Foster long-term relations with potential targets, source deals in-house.

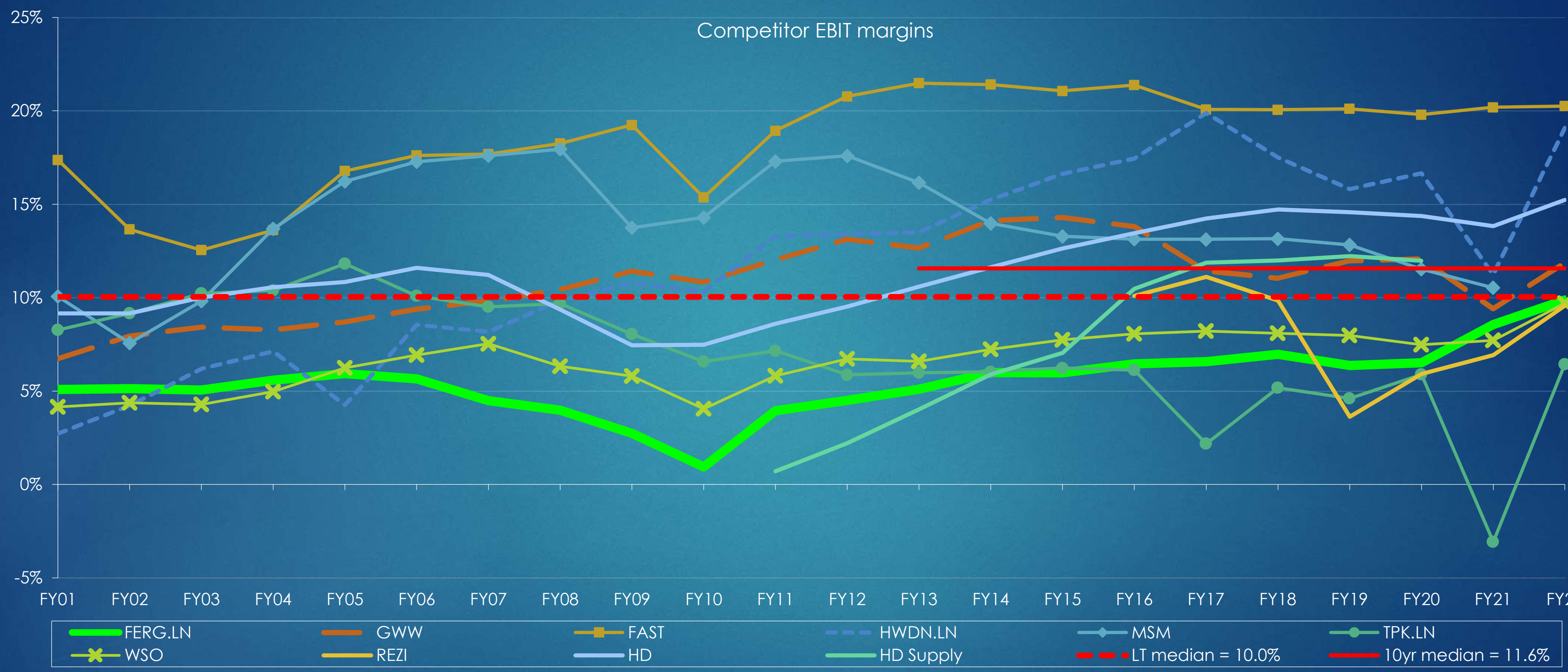
Long runway of opportunity for bolt-on deals; since 2009, exited all non-core geographies to focus on North America

Cash return history

Returned >$10.5B over last decade via buybacks and dividends; additional $1B remains on buyback authorization, expect steady dividend increase

Significant dilution (~2x) during financial crisis still lingers; FERG actively returned cash to investors for last decade

Margins versus comparable models



Margins healthy and improved, but seem sustainable versus peers

Trian involvement

- Initiated 6% position May 2019
  - Ferguson traded at ~15x EV/EBIT versus <10x today
- Pushed for Wolseley UK sale, FERG.LN paid special dividend with proceeds
- Advocated for US primary listing
- New leadership appointed shortly after involvement
  - Geoff Drabble (12yrs Ashtead CEO) Chairman
  - Kevin Murphy CEO (former Ferguson USA CEO)
- Plan largely validated; current macro concerns offer investors another opportunity to benefit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FERGUSON®

14 November 2019

Brian Baldwin, Partner, Trian Fund Management L.P.

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https://trianpartners.com/wp-content/uploads/2019/11/FERG.L.pdf

Compelling Train presentation still holds true; prompted changes making FERG more attractive to investors

Kevin Murphy, CEO

- Joined in 1999 when Ferguson bought his family's business, Midwest Pipe and Supply; his roles included driver, receivables, warehouse, etc.
- Increasing roles at Waterworks, rose to COO Ferguson USA 2007, CEO in 2017; appointed FERG.LN company CEO Nov19
- Exceeded compensation metrics thus far
  - Annual bonus (150% base max): 60% Trading profit, 20% Cash conversion days, 20% personal
  - 3yr LTIP metrics (350% base max): 33% TSR percentile 50-75th, 33% EPS growth above CPI, 33% cumulative OCF
- Minimal equity holding, threshold up from 3x base to 5x in FY22

Murphy's path to Ferguson was like many associates: the firm he worked for was acquired

Nov 2022 interview

We got a call from Ferguson asking about succession plans. For my father and I it was a question of whether to hunker down and continue in Southern Ohio or think about joining a larger firm…**I never thought I'd stay with the company. Boy, was I wrong!**

Unlike a family business, you share branch financials with associates. It shows them drivers of our success and creates incredible buy-in.

I define "culture" as what gets rewarded. Looking across our history, regardless of financial metrics, **if you weren't developing people to grow in the company, you weren't getting promoted.**

My work is my personal life to a great degree. Many of my best friends are Ferguson associates. Friends that visit in Virginia are former customers from Ohio.

If you don't have people challenging the status quo internally, **it is a really dangerous place for an organization, particularly one that is successful within its industry.**

https://www.youtube.com/watch?v=0_OdMv1G8IQ

Ferguson culture: newsrun nuggets

Uncommon executive loyalty

Charlie Banks [FERG CEO 2001-06], who recently became a partner at Clayton, Dubilier & Rice **said most of his best friends work at Ferguson, that's why he won't be involved with CD&R's recent investment, Home Depot Supply.**

Even though Banks might be most qualified to run HDS, he was uncomfortable with the idea of competing with his old friends. **He isn't bound by a non-compete, he said, he just doesn't want to do it.**

-Daily Press, 6/27/2007

Modest accommodations

Wolseley offices boast none of the luxuries one would normally associate with the HQ of a FTSE 100 company.

The company employs three full time M&A specialists…but it walks away from its fair share of takeovers.

CEO Charlie Banks notes, "We want to buy customers, products and geography. We don't just want to buy sales, that's an expensive way to do business."

-Daily Mail, 5/19/2005

Simple but effective operating ideas

It tries to increase sales by a "brilliantly simple" marketing technique.

Each day, **Ferguson's employees are not allowed to go home until the next day's deliveries are fully loaded**. That means the company can be making on-site deliveries when competitors are still doing their morning loading. **Customers appreciate this service and stay loyal.**

-Financial Times, 12/18/1986

Sale to British preserved culture

Peebles had been looking to sell Ferguson because they needed capital to expand. **They disliked the idea of selling to a large US group for fear of losing their independence.**

-Financial Times, 7/4/1985

Employee continuity

"There is a long tradition of loyalty. Many of our people have been here their entire working lives, and 15-20 years of service is commonplace. **In the USA alone, our plumbing and heating business recruits almost 500 graduates each year.**

The executive development program is taught by the Darden School at UVA. Focused squarely on practical, valuable skills that can be used immediately, the program is the foundation of future management insight and expertise. Over 120 execs attended in the last year.

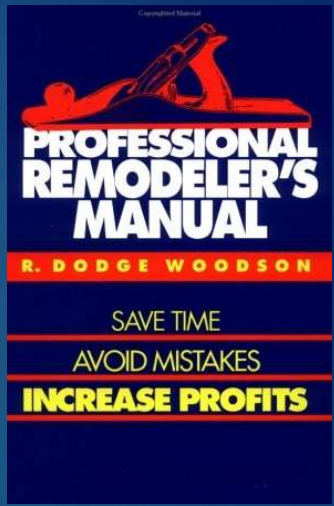
-2003 Wolseley Annual Report

Uniquely long tenure of employees, decades of consistency suggests "culture" refrain is more than just talk; validated in branch visits

Perspective enhancing books

Professional Remodeler's Manual
By R. Dodge Woodson © 1995

- **Plumbing is one area of work where a lot of remodelers lose money. Many contractors begin their careers as carpenters.** As they learn their trade, they go out on their own. While prepared to deal with many problems in their established fields, **these contractors are far from prepared to deal with plumbing systems. They've seen them and they know something about them, but they don't know enough to keep out of trouble.** This can also be true of electrical wiring and other systems, **but plumbing seems to be the #1 downfall for most remodelers who are bidding jobs without the help of experts. Part of this problem is that plumbing can seem simple**, when in reality the plumbing codes are quite complex. I've seen jobs where remodelers grossly underestimated costs for new plumbing. Many situations were caused by a lack of knowledge. **If these contractors had called in a skilled plumber before signing a contract with a homeowner, most of the losses could have been avoided. But many contractors will wait until they have been awarded a job to call in a plumber.** By this time, if there was a problem, the contractor absorbs the financial loss. Whenever plumbing is involved in remodeling, costs can spike, so don't allow yourself to get caught on a bad financial updraft. p.121
- My experience has shown that all galvanized pipes should be replaced with modern plumbing materials. The upfront savings of tying into old steel pipes is generally lost in unbillable time for callbacks. **This doesn't even account for the frustration of homeowners who have just paid handsomely for quality remodeling work that doesn't function properly.** My advice is this: If you see galvanized pipe on a job, talk the customer into replacing it. p.128

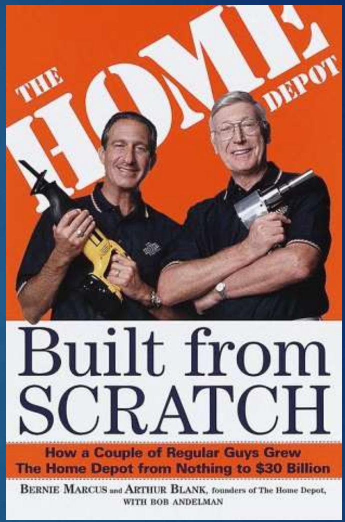


Plumbing requires more expertise than many may assume; Ferguson's ability to offer advice is truly valuable

Perspective enhancing books

Built from Scratch [Home Depot]
By Bernie Marcus & Arthur Blank © 1999

- We're only as good as our people—especially the men and women working in our stores every day. If the front line isn't absolutely committed to the cause, we can't win. p.xvii
- We teach our associates that if you can save a customer money, do it. We're not looking to fleece the customer. If you can save them $100, why not do it? That reflects one of our core values: caring for the customer. Care for them today and they'll be back tomorrow. p.104
- **Turnover among associates who have been with us more than one year is rare**. After that, they tend to picture themselves building a career at The Home Depot. p.106
- Walk into a Home Depot for the first time, and it's packed from floor to high ceiling. Whatever you need, our stores usually stock it. **We also put a larger percentage of our overall sales back into store payroll, putting more people on the sales floor than anyone else.** p.194
- We have taken a more proactive approach to our vendor relationships, initiating periodic product line reviews that have radically reduced our assortments in certain areas. p.226
- We expect the associates to run the store like it is their own business, tailoring a great deal of the product selection to local needs and buying local products. p.243
- **There is no magic bullet. What we offer store managers is an environment that allows people to flourish**, and the rest is coaching, mentoring and support. p.260



Service and advice are critical in this business: companies that offer best career prospects attract best talent—a real advantage

Why are we so lucky to have this opportunity (aka what's the RISK??)

Real risks

- Inherent risks of roll-up strategy
- Sustained financial crisis
- Well capitalized, determined industry entrant emerges

Perceived risks

- Economic slowdown
- >90% price decline from 2007-09 gives investors pause amid current macro
- Story already known / Trian presentation several years old

Business hiding in plain sight; many consumers are unfamiliar with Ferguson, but strong presence in trade channel

Financial objectives

At current valuation, executing in line with past is attractive

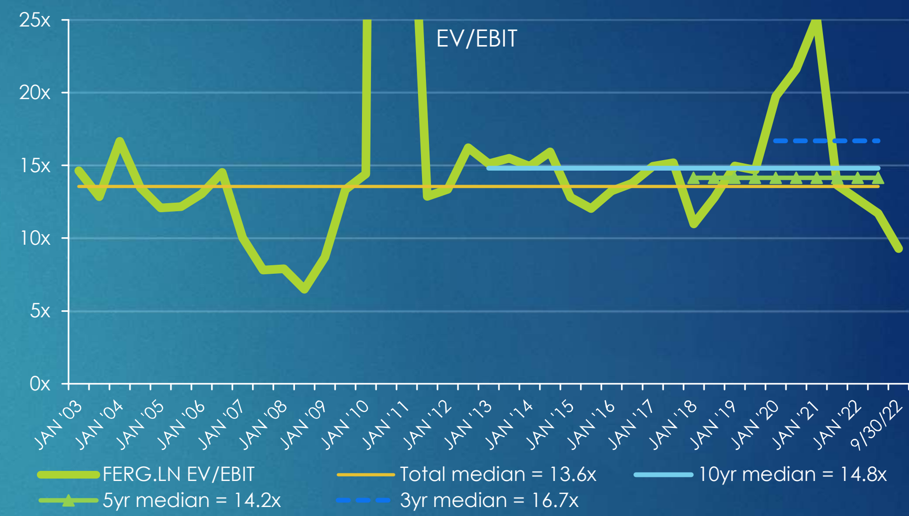
- Target 7-12% long-term revenue growth
  - 3-5% underlying market
  - 3-4% company-specific outperformance
  - 1-3% from acquisitions
- FY23 low single digit revenue growth, EBIT margin 9.3-9.9% (↓40-100bps)
  - Long-term EBIT margin growth ~10bps/yr
- Operating cash flow >100%+ of net income, capex ~1.5% revenue
- Modest operating leverage drives low/mid-teens EPS growth

Despite near-term fears, underlying business going forward should resemble prior history

Valuation

Ferguson shares approaching all-time trailing low multiples

Share price	$ 110 (£99)
Market cap	**$ 23,956m**
Debt	$ 3,929
Cash & ST inv.	($ 771)
Enterprise value	**$ 27,114m**



LTM 7/31/22 EBITDA	**$3,121m**	**EV/EBITDA 8.7x**
LTM 7/31/22 EBIT	**$2,820m**	**EV/EBIT 9.6x**

Some economic deterioration already discounted in price

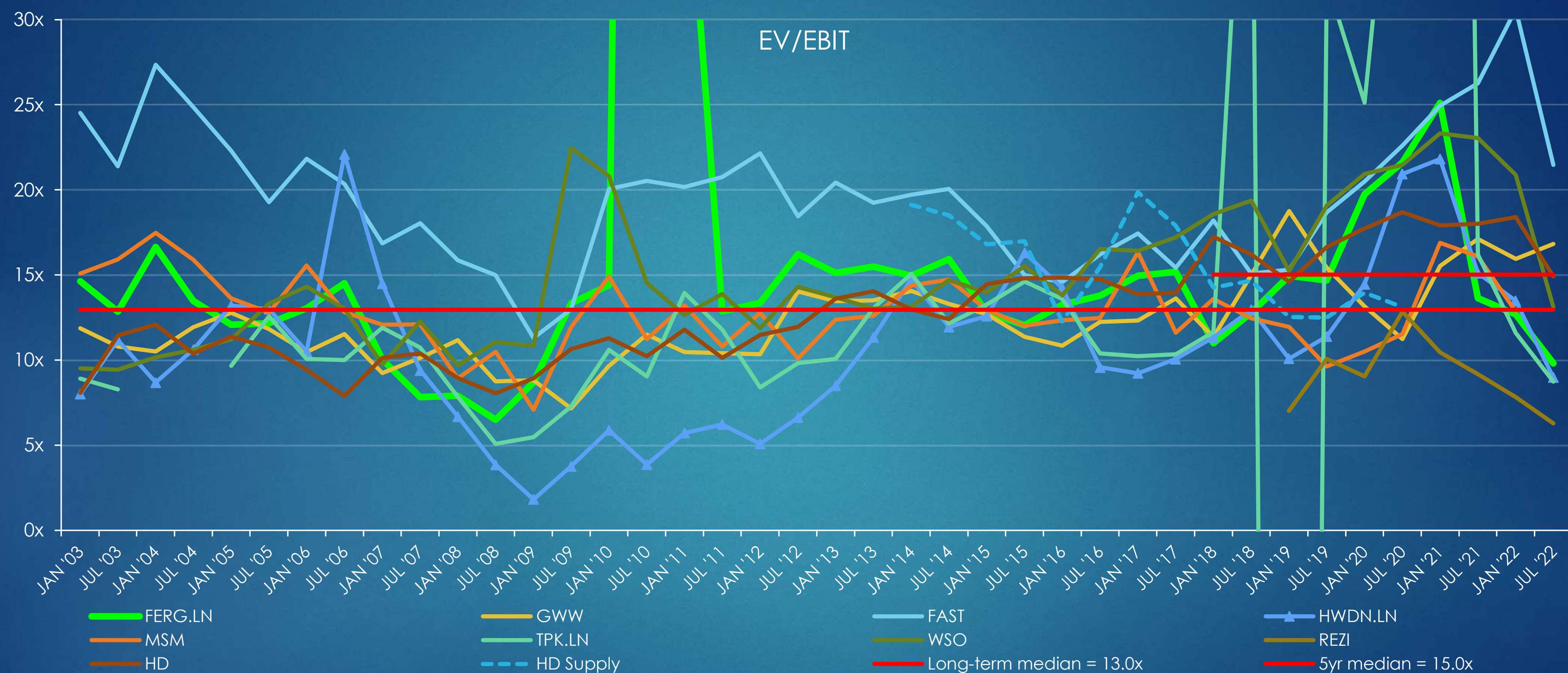
Peers' valuation

($mm)	Ferguson plc **FERG.LN**	W.W. Grainger **GWW**	Fastenal **FAST**	Howden Joinery **HWDN.LN**	MSC Industrial Direct **MSM**	Travis Perkins **TPK.LN**	Resideo **REZI**	Home Depot **HD**
Market Cap	**$23,980**	$25,701	$26,565	$3,259	$4,152	$1,872	$3,200	$292,125
EV	**$27,138**	$27,765	$26,822	$2,979	$4,913	$2,329	$4,371	$331,894
Revenue	**$28,566**	$14,215	$6,569	$2,489	$3,501	$5,401	$6,142	$155,239
EBITDA	**$3,121**	$2,123	$1,535	$613	$502	$572	$754	$26,204
EBIT	**$2,820**	$1,923	$1,361	$478	$432	$379	$666	$23,759
EV/EBITDA	**8.7x**	13.1x	17.5x	4.9x	9.8x	4.1x	5.8x	12.7x
3yr median	***13.4x***	*13.8x*	*21.2x*	*12.0x*	*10.6x*	*10.6x*	*7.1x*	*15.7x*
EV/EBIT	**9.6x**	14.4x	19.7x	6.2x	11.4x	6.1x	6.6x	14.0x
3yr median	***16.7x***	*15.7x*	*24.2x*	*14.8x*	*12.9x*	*20.7x*	*9.1x*	*17.9x*
3yr rev CAGR	**9.1%**	5.1%	6.6%	11.5%	-1.2%	-12.0%	6.6%	11.8%
LTM EBITDA margin	**10.9%**	14.9%	23.4%	24.7%	14.3%	10.6%	12.3%	16.9%
LTM EBIT margin	**9.9%**	13.5%	20.7%	19.2%	12.3%	7.0%	10.8%	15.3%
LTM ROIC	**28.4%**	29.5%	29.2%	59.5%	14.0%	9.9%	11.1%	43.4%
Debt/EV	**19.7%**	9.8%	2.8%	22.1%	17.4%	41.3%	38.7%	14.8%
EV/EBITDA Δ vs history	**-35%**	-6%	-18%	-60%	-8%	-61%	-18%	-20%
EV/EBIT Δ vs history	**-42%**	-8%	-19%	-58%	-12%	-70%	-28%	-22%

Source: Factset, company filings
As of 10/7/22

Despite solid execution and meaningfully improved business mix, Ferguson trades at steeper discount to history than US peers

Industry multiples



Industry history provides support for underwriting low/mid-teens Ferguson EV/EBIT multiples

Relevant transactions

Most industry transactions are small and private

Date	Acquirer	Target	Implied EV	EV/Sales	EV/EBITDA	EV/EBIT
May-21	HIG Capital	TPK.LN Plumbing & Heating	$460	0.3x	N/A	8.6x
Jan-21	Clayton, Dubilier & Rice	Wolseley UK	$421	0.2x	N/A	N/A
Nov-20	Home Depot	HD Supply	$7,873	1.5x	11.2x	13.2x
Jun-17	Clayton, Dubilier & Rice	HD Supply Waterworks	$2,500	1.0x	10.7x	11.2x
Jun-07	Bain, Carlyle, CD&R	HD Supply	$8,500	0.7x	10.5x	10.5x

Minimal public transaction info, PE very active; prior deals suggest upside to FERG.LN multiple

Scenario analysis

	Base	Bull	Bear
% revenue growth	3.0%	10.0%	-4.0%
FY23 revenue	$29,861	$32,956	$26,869
EBIT margin	9.0%	11.0%	7.0%
FY23 EBIT	$2,687	$3,625	$1,881
EV/EBIT multiple	12.5x	17.0x	8.0x
Enterprise value	$33,594	$61,628	$15,047
Debt	$3,929	$3,929	$3,929
Cash and equivalents	$771	$771	$771
Implied market cap	**$30,436**	**$58,470**	**$11,889**
Price per share ($)	$140	$268	$55
Price per share (£)	**£126**	**£242**	**£49**
% upside/(downside)	**27%**	**144%**	**-50%**

Low single-digit FY23, high single-digit long-term

Guiding to -40-100bps FY23
+10bps annual long-term
Declined 220bps FY08-10

Conservative relative to FERG.LN history (pre-divestitures); HDS acquired for 13x EV/EBIT in 2020

Current <10x EV/EBIT well below historical ~14x, implies margin declines despite core business sustainably >150bps above prior FERG.LN

Optionality

- M&A opportunities drive accelerated growth
- Outsized growth of owned brands (~9% of sales, 2x margin of core business, target growth 2x core business)
- High profile investors bring outsized attention and interest
- Spike in USA onshoring projects, demand from recent $1T infrastructure bill
- Received attention of other successful roll-ups, “two-sided marketplace” halo or some other multiple-enhancer
- Macro/interest rate shift drives positive sentiment
- Acquired

While optionality exists, this is largely an execution story, supported by long-term tailwinds

Ferguson, in summary

- High quality, steady growth business trading at reasonable absolute multiple, cheap relative long-term historical trading
- Performance more predictable than appears at first glance
- Scale confers hard-to-replicate tangible and intangible benefits
  - More consistent fulfillment, more convenient locations
  - Ability to offer best pricing, working capital terms
  - Attract quality employees due to advancement opportunity, financial stability, benefits offered, pay for performance

Ferguson is a better company without Wolseley; investors should benefit at current entry price

Thank you

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