



News Release

Flowserve Reports First Quarter 2014 Results

04/23/14

First Quarter EPS of \$0.78 increased 16.4% from prior year

Solid bookings, including record first quarter aftermarket

Increased gross profit and gross margin in all segments

Reaffirms 2014 Full Year EPS Target Range of \$3.65 to \$4.00

DALLAS--(BUSINESS WIRE)--Apr. 23, 2014-- Flowserve Corporation (NYSE:FLS), a leading provider of flow control products and services for the global infrastructure markets, announced today its financial results for the 2014 first quarter. In addition, Flowserve also today filed its Form 10-Q with the Securities and Exchange Commission for the period ended March 31, 2014.

Highlights of 2014 First Quarter (all comparisons versus prior year quarter, unless otherwise noted):

- Fully diluted EPS of \$0.78, up 16.4%, included \$0.03 per share of net benefits (discrete items consist of a \$0.05 asset sale net gain partially offset by \$0.01 of realignment charges and \$0.01 of below-the-line currency impact)
 - 2013 first quarter EPS of \$0.67 also included \$0.03 per share of net benefits (discrete items consist of a \$0.09 joint venture transactions gain partially offset by \$0.06 of below-the-line currency impact)

- Excluding discrete items in both periods, fully diluted EPS in 2014 was up 17.2%

- Bookings of \$1.19 billion, up 0.3%, or 2.3% on a constant currency basis
 - Aftermarket bookings of \$517 million, up 8.2%, or 10.8% on a constant currency basis

- Sales of \$1.07 billion, down 2.6%, or 1.3% on a constant currency basis

- Gross profit increased \$3.8 million to \$377.1 million, up 1.0%

- Gross margin improved 130 basis points to 35.3%

- SG&A expense decreased \$18.3 million, or 7.8%
 - Excluding the SG&A impact of discrete items (the asset sale gain less transaction costs in 2014 and \$1.7 million of joint venture transaction fees in 2013), SG&A declined \$4.0 million and was relatively flat as a percentage of sales

- Operating income decreased \$6.2 million, or 3.6%
 - Discrete items impacting operating income consist of a \$13.4 million asset sale gain partially offset by \$1.8 million of combined realignment and transaction costs in 2014, and a \$26.6 million joint venture transaction gain net of transaction fees in 2013
 - Excluding the discrete items in both periods, operating income increased \$8.8 million, or 6.1%

- Operating margin of 15.4% decreased 10 basis points
 - Excluding both periods' discrete items, operating margin increased 120 basis points to 14.3%

“Flowserve’s performance in the 2014 first quarter met our expectations for the period and provides confidence in our 2014 full year guidance range,” said Mark Blinn, Flowserve’s president and chief executive officer. “Our continued progress on operational improvements and execution of strategic actions, combined with improving end markets and a higher-quality backlog, has positioned the business for profitable growth to drive shareholder value.” Key takeaways from the 2014 first quarter include:

- Key strategies, including ‘One Flowserve’ and ‘Customer Focus’, continue to drive results, and propensity for further improvement remains;
- Remained disciplined and selective in project pursuit, as current bidding activity and early second quarter awards support expected bookings and revenue growth;
- Aftermarket strategies and emphasis produced record first quarter aftermarket bookings of \$517 million;
- IPD’s operational and margin improvement, along with its increased customer satisfaction, have enabled a shift in focus to growth, demonstrated by its 10% increase in bookings;
- Higher quality backlog and operational execution, combined with cost leverage, drove solid gross margin improvement across all segments with solid operating margin performance;
- Diversity in geographic exposure, business mix, customer base and end markets remains a major strength;
- Continual portfolio optimization resulted in a non-core divestiture, increasing returns on investments to produce shareholder value;
- While project timing is difficult to predict, the energy markets we serve are beginning to accelerate. Combined with the strength of our business model, we remain confident in our long-term growth outlook.

Financial Performance and Guidance

“The 2014 first quarter’s gross margin improvement demonstrated the strength of our platform, as we focused on improving operational execution and cost control, which positions the business for

growth during the year's remaining quarters and beyond," commented Mike Taff, Flowserve's senior vice president and chief financial officer. "During the quarter, we further optimized our product portfolio through the divestiture of the non-core, Naval district heating valve business. Even with slightly lower revenues, due to seasonality and shipment timing, we delivered solid leverage and flow-through with a 120 basis point improvement in operating margin to 14.3%, as adjusted for the discrete items in the current and prior year's first quarter.

"The typical seasonality of our first quarter drove a usage of cash; however, we saw a modest improvement in working capital as we methodically pursue our working capital and cash flow goals.

"We remain encouraged by the momentum we are seeing in our end markets, particularly the strong bidding activity in North America. When combined with our improving backlog, this supports reaffirming our full year 2014 guidance, including 3 to 6 percent constant currency revenue growth and EPS between \$3.65 and \$4.00."

Operational Commentary and Segment Performance (all comparisons versus first quarter 2013 unless otherwise noted)

"I am pleased with the progress we continue to deliver through our operating initiatives, which produced first quarter gross margin improvement of 130 basis points, to 35.3%," said Tom Pajonas, executive vice president and chief operating officer. "Each segment contributed, including FCD's impressive improvement of 280 basis points and IPD adding 100 basis points, demonstrating an improving platform that is increasingly capable of delivering profitable growth. Our 'Customer Focus' initiatives are also gaining traction and producing results, as the importance of quality, on-time delivery and project management capabilities become increasingly important in an accelerating marketplace.

"While bidding for the initial larger projects has been competitive, particularly in the Middle East, we will remain disciplined and selective to ensure the quality of our backlog, concentrating our efforts on customers and projects that recognize our value-added characteristics and capabilities. We expect the current aftermarket momentum to continue, building upon record first quarter bookings and improved turnaround activity. Our solid aftermarket franchise and run-rate original equipment business provide a strong, growing foundation. With this recurring base load activity, and larger project work progressing to the bidding stage, particularly in the Gulf Coast, we have increased confidence that the cycle is gaining strength."

Flowserve reports its operations through three segments: Engineered Product Division (EPD), Industrial Product Division (IPD) and Flow Control Division (FCD). Key financial highlights of segment performance for the first quarter of 2014 include:

First Quarter 2014 - Segment Results

(dollars in millions, comparison vs. 2013 first quarter, unaudited)

	EPD	IPD	FCD
Bookings	\$ 594.3	\$ 229.1	\$ 413.7
- vs. prior year	1.6%	10.4%	-3.9%
- on constant currency	6.3%	9.5%	-4.4%
Sales	\$ 505.2	\$ 211.8	\$ 382.9
- vs. prior year	-6.4%	0.2%	-0.3%
- on constant currency	-3.1%	-0.7%	-1.1%
Gross Profit	\$ 178.5	\$ 55.2	\$ 144.4
- vs. prior year	-5.2%	4.2%	7.8%
Gross Margin (% of sales)	35.3%	26.1%	37.7%
- vs. prior year (in basis points)	40	100	280
Operating Income	\$ 79.3	\$ 23.3	\$ 83.1
- vs. prior year	-6.3%	8.9%	-4.7%
- on constant currency	-2.7%	4.5%	-4.6%
Operating Margin (% of sales)	15.7%	11.0%	21.7%
- vs. prior year (in basis points)	0	90	-100
Backlog	\$ 1,408.8	\$ 547.2	\$ 797.7

First Quarter 2014 Results Conference Call

Flowserve will host its conference call with the financial community on Thursday, April 24th at 11:00 AM Eastern. Mark Blinn, president and chief executive officer, as well as other members of the management team will be presenting. The call can be accessed by shareholders and other interested parties at www.flowserve.com under the "Investor Relations" section.

About Flowserve

Flowserve Corp. is one of the world's leading providers of fluid motion and control products and services. Operating in more than 50 countries, the company produces engineered and industrial pumps, seals and valves as well as a range of related flow management services. More information about Flowserve can be obtained by visiting the company's Web site at www.flowserve.com.

SAFE HARBOR STATEMENT: This news release includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, as amended. Words or phrases such as, "may," "should," "expects," "could," "intends," "plans," "anticipates," "estimates," "believes," "forecasts," "predicts" or other similar expressions are intended to identify forward-looking statements, which include, without limitation, earnings forecasts, statements relating to our business strategy and statements of expectations, beliefs, future plans and strategies and anticipated developments concerning our industry, business, operations and financial performance and condition.

The forward-looking statements included in this news release are based on our current expectations, projections, estimates and assumptions. These statements are only predictions, not guarantees. Such forward-looking statements are subject to numerous risks and uncertainties that are difficult to predict. These risks and uncertainties may cause actual results to differ materially from what is forecast in such forward-looking statements, and include, without limitation, the following: a portion of our bookings may not lead to completed sales, and our ability to convert bookings into revenues at acceptable profit margins; changes in the global financial markets and the availability of capital and the potential for unexpected cancellations or delays of customer orders in our reported backlog; our dependence on our customers' ability to make required capital investment and maintenance expenditures; risks associated with cost overruns on fixed-fee projects and in taking customer orders for large complex custom engineered products; the substantial dependence of our sales on the success of the oil and gas, chemical, power generation and water management industries; the adverse impact of volatile raw materials prices on our products and operating margins; economic, political and other risks associated with our international operations, including military actions or trade embargoes that could affect customer markets, particularly Russian and Middle Eastern markets and global oil and gas producers, and non-compliance with U.S. export/re-export control, foreign corrupt practice laws, economic sanctions and import laws and regulations; our exposure to fluctuations in foreign currency exchange rates, including in hyperinflationary countries such as Venezuela; our furnishing of products and services to nuclear power plant facilities and other critical processes; potential adverse consequences resulting from litigation to which we are a party, such as litigation involving asbestos-containing material claims; a foreign government investigation regarding our

participation in the United Nations Oil-for-Food Program; expectations regarding acquisitions and the integration of acquired businesses; our relative geographical profitability and its impact on our utilization of deferred tax assets, including foreign tax credits; the potential adverse impact of an impairment in the carrying value of goodwill or other intangible assets; our dependence upon third-party suppliers whose failure to perform timely could adversely affect our business operations; the highly competitive nature of the markets in which we operate; environmental compliance costs and liabilities; potential work stoppages and other labor matters; our inability to protect our intellectual property in the U.S., as well as in foreign countries; obligations under our defined benefit pension plans; and other factors described from time to time in our filings with the Securities and Exchange Commission.

All forward-looking statements included in this news release are based on information available to us on the date hereof, and we assume no obligation to update any forward-looking statement.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share data)

	Three Months Ended March 31,	
	2014	2013
Sales	\$ 1,068,136	\$ 1,096,596
Cost of sales	(691,014)	(723,288)
Gross profit	377,122	373,308
Selling, general and administrative expense	(216,227)	(234,509)
Net earnings from affiliates	3,431	31,680
Operating income	164,326	170,479
Interest expense	(15,149)	(12,092)
Interest income	331	274
Other expense, net	(2,905)	(11,028)
Earnings before income taxes	146,603	147,633
Provision for income taxes	(38,015)	(48,733)
Net earnings, including noncontrolling interests	108,588	98,900
Less: Net earnings attributable to noncontrolling interests	(854)	(1,111)
Net earnings attributable to Flowserve Corporation	<u>\$ 107,734</u>	<u>\$ 97,789</u>

Net earnings per share attributable to Flowserve Corporation
common shareholders:

Basic	\$ 0.78	\$ 0.68
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Diluted		0.78	0.67
Cash dividends declared per share	\$	0.16	\$ 0.14

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2014	December 31, 2013
(Amounts in thousands, except per share data)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 164,416	\$ 363,804
Accounts receivable, net of allowance for doubtful accounts of \$23,554 and \$24,073, respectively	1,064,216	1,155,327
Inventories, net	1,121,248	1,060,670
Deferred taxes	156,486	157,448
Prepaid expenses and other	100,901	110,133
Total current assets	<u>2,607,267</u>	<u>2,847,382</u>
Property, plant and equipment, net of accumulated depreciation of \$852,042 and \$849,863, respectively	694,921	716,289
Goodwill	1,101,434	1,107,551
Deferred taxes	19,444	19,533
Other intangible assets, net	155,495	160,548
Other assets, net	180,847	185,430
Total assets	<u>\$ 4,759,408</u>	<u>\$ 5,036,733</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 470,222	\$ 612,092
Accrued liabilities	756,420	861,010
Debt due within one year	75,088	72,678
Deferred taxes	12,280	12,319
Total current liabilities	<u>1,314,010</u>	<u>1,558,099</u>
Long-term debt due after one year	1,117,244	1,127,619
Retirement obligations and other liabilities	465,281	473,894
Shareholders' equity:		
Common shares, \$1.25 par value	220,991	220,991
Shares authorized – 305,000		
Shares issued – 176,793 and 176,793, respectively		

Capital in excess of par value	464,281	476,218
Retained earnings	3,070,775	2,985,391
Treasury shares, at cost – 40,476 and 39,630 shares, respectively	(1,693,994)	(1,600,266)
Deferred compensation obligation	9,188	9,522
Accumulated other comprehensive loss	(215,755)	(221,477)
Total Flowserve Corporation shareholders' equity	1,855,486	1,870,379
Noncontrolling interests	7,387	6,742
Total equity	1,862,873	1,877,121
Total liabilities and equity	<u>\$ 4,759,408</u>	<u>\$ 5,036,733</u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

	Three Months Ended March 31,	
	2014	2013
Cash flows – Operating activities:		
Net earnings, including noncontrolling interests	\$ 108,588	\$ 98,900
Adjustments to reconcile net earnings to net cash used by operating activities:		
Depreciation	23,058	21,403
Amortization of intangible and other assets	4,305	3,807
Net loss on disposition of assets	74	236
Gain on sale of business	(13,403)	-
Gain on sale of equity investment in affiliate	-	(12,995)
Gain on remeasurement of acquired assets	-	(15,315)
Excess tax benefits from stock-based compensation arrangements	(8,353)	(6,818)
Stock-based compensation	9,916	8,035
Net earnings from affiliates, net of dividends received	(1,986)	(3,066)
Change in assets and liabilities:		
Accounts receivable, net	77,264	40,223
Inventories, net	(76,990)	(83,502)
Prepaid expenses and other	(6,897)	(9,831)
Other assets, net	4,025	70
Accounts payable	(123,050)	(103,881)
Accrued liabilities and income taxes payable	(77,552)	(55,413)
Retirement obligations and other liabilities	(4,437)	10,102
Net deferred taxes	773	(25)

Net cash flows used by operating activities	<u>(84,665)</u>	<u>(108,070)</u>
Cash flows – Investing activities:		
Capital expenditures	(31,663)	(34,258)
Proceeds from disposal of assets	301	212
Payments for acquisition, net of cash acquired	-	(10,143)
Proceeds from sale of business, net of cash divested	46,805	-
Proceeds from equity investments in affiliates	-	46,240
Net cash flows provided by investing activities	<u>15,443</u>	<u>2,051</u>
Cash flows – Financing activities:		
Excess tax benefits from stock-based compensation arrangements	8,353	6,818
Payments on long-term debt	(10,000)	(5,000)
Proceeds from revolving credit facility	-	150,000
Borrowings (payments) under other financing arrangements, net	1,809	(4,013)
Repurchases of common shares	(109,605)	(155,552)
Payments of dividends	(19,387)	(17,514)
Other	(385)	(121)
Net cash flows used by financing activities	<u>(129,215)</u>	<u>(25,382)</u>
Effect of exchange rate changes on cash	(951)	(3,414)
Net change in cash and cash equivalents	<u>(199,388)</u>	<u>(134,815)</u>
Cash and cash equivalents at beginning of period	363,804	304,252
Cash and cash equivalents at end of period	<u>\$ 164,416</u>	<u>\$ 169,437</u>

SEGMENT INFORMATION

ENGINEERED PRODUCT DIVISION

(Amounts in millions, except percentages)

	Three Months Ended March 31,	
	2014	2013
Bookings	\$ 594.3	\$ 585.1
Sales	505.2	539.7
Gross profit	178.5	188.2
Gross profit margin	35.3%	34.9%
Operating income	79.3	84.6
Operating margin	15.7%	15.7%

INDUSTRIAL PRODUCT DIVISION

(Amounts in millions, except percentages)

	Three Months Ended March 31,	
	2014	2013
Bookings	\$ 229.1	\$ 207.5
Sales	211.8	211.3

Gross profit	55.2	53.0
Gross profit margin	26.1%	25.1%
Operating income	23.3	21.4
Operating margin	11.0%	10.1%

FLOW CONTROL DIVISION

(Amounts in millions, except percentages)

	Three Months Ended March 31,	
	2014	2013
Bookings	\$ 413.7	\$ 430.6
Sales	382.9	384.0
Gross profit	144.4	133.9
Gross profit margin	37.7%	34.9%
Operating income	83.1	87.2
Operating margin	21.7%	22.7%

Source: Flowserve Corporation

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