



## News Release

### Flowserve Reports Second Quarter 2014 Results

07/23/14

***Second Quarter EPS of \$0.90 includes 3 cents per share of FX headwind, severance and realignment***

***Strong bookings of \$1.38 billion – up 12.6% and 15.9% sequentially***

***Gross and operating margins increased 110 basis points***

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

DALLAS--(BUSINESS WIRE)--Jul. 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 second quarter. In addition, Flowserve also today filed its Form 10-Q with the Securities and Exchange Commission for the period ended June 30, 2014.

**Summary of 2014 Second Quarter** (all comparisons versus prior year quarter, unless otherwise noted):

- Fully diluted EPS of \$0.90, up 7.1%, and included \$0.03 per share of foreign currency, severance and realignment expense
- Bookings of \$1.38 billion, up 12.6%, or 12.8% on a constant currency basis, and up 15.9% sequentially

- Original equipment bookings of \$852 million increased 17.7% and 25.9% sequentially
- Aftermarket bookings of \$532 million increased 5.3% and 2.9% sequentially
- Sales of \$1.22 billion, decreased 1.2%, or 1.5% on a constant currency basis, and up 14.6% sequentially
  - Aftermarket sales of \$507 million increased 3.0%, or 3.6% on a constant currency basis
- Gross profit increased \$8.7 million to \$430.3 million, up 2.1%
- Gross margin of 35.1% increased 110 basis points
- SG&A expense decreased \$2.0 million, and increased as percentage of sales by 10 basis points to 19.5%
- Operating income increased \$10.8 million to \$194.3 million, up 5.9%
- Operating margin of 15.9% increased 110 basis points
- Backlog increased \$292.9 million year-to-date to \$2.85 billion, up 11.5%

“Flowserve’s second quarter results were solid, and our robust bookings highlight the increased activity building in our key energy markets as we have seen a few project awards beginning and expect increased activity later in 2014 and into 2015,” indicated Mark Blinn, Flowserve’s president and chief executive officer. “The continued strength of our run rate and aftermarket business, together with the initial project opportunities and our disciplined bidding approach, supports our expectation to deliver profitable growth through the second half of the year and into 2015. The combination of ongoing operational excellence initiatives, increased award activity, capital structure actions and bolt-on M&A opportunities will position the company to drive increased shareholder value. Key takeaways from the 2014 second quarter include:

- Strong bookings increased high-quality backlog by \$292.9 million year-to-date and provides confidence for second half 2014 revenue growth;

- End-user strategies delivered record first half aftermarket bookings at over \$1 billion, up 6.7%;
- Substantial growth in original equipment bookings supports confidence in improving near-term cycle;
- Gross and operating margin improvement in all segments demonstrates benefit of selective bidding approach when combined with solid execution and disciplined cost focus;
- Operational excellence initiatives, including 'One Flowserve', continue to drive results and performance;
- Opportunity to leverage SG&A and fixed cost structure with increased activity and revenue growth; and
- Solid operating platform and project execution enables pursuit of enhanced growth, including bolt-on M&A opportunities.”

Flowserve's financial results for the first six months of 2014 (as compared to the 2013 period) are highlighted by fully diluted EPS of \$1.67 per share, up 10.6%, on relatively flat sales of \$2.3 billion. Gross profit of \$807.4 million and operating income of \$358.6 million represent margins of 35.2% and 15.6%, up 120 and 40 basis points, respectively. Bookings for the six months ended June 30, 2014 totaled \$2.6 billion, up 7.0% or 8.1% on a constant currency basis.

### **Financial Performance and Guidance**

“During the second quarter and first half of 2014, our improved operations, cost focus and higher quality backlog delivered impressive margin improvement and EPS growth,” said Mike Taff, Flowserve's senior vice president and chief financial officer. “The combination of our strong backlog, accelerating end markets and internal operational improvements provide confidence in reaffirming our 2014 EPS guidance of \$3.65 to \$4.00, even as we now expect full year revenues in the lower half of our 3 to 6 percent revenue target range, which includes the impact of a first quarter business sale and foreign currency headwinds.

“Cash flow continues to be a priority, and significant opportunity remains. While I am pleased with the modest year-to-date improvement in operating cash flow versus the first half of 2013, we are not satisfied and will continue to implement initiatives to improve our cash cycle.

“Additionally, we remain committed to returning capital to our shareholders while maintaining a solid balance sheet. In the first half of 2014, Flowserve returned approximately \$195 million in share repurchases and dividends, and we continued our disciplined approach to capital deployment.”

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

Tom Pajonas, executive vice president and chief operating officer, said, “Progress continued across our operations as evidenced by strong gross and operating margin performance in each segment. This performance came in spite of the impact of some larger shipment delays, as customers deferred inspections or issued change orders, which is not uncommon. I remain confident that our process improvements have become deeply embedded and sustainable, as demonstrated by a third consecutive quarter of past due backlog below 5 percent. The nearly 18 percent increase in original equipment bookings during the quarter provides confidence that the original equipment cycle is starting, and we expect it to pick up in the 2014 second half and into 2015. Looking to the remainder of the year, we continue to believe our improved operations and customer focus positions us to capitalize on the expected growth in our key energy markets.”

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 second quarter of 2014 include:

*Second Quarter 2014 - Segment Results*

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

		<b>EPD</b>		<b>IPD</b>		<b>FCD</b>
Bookings	\$	744.3	\$	248.0	\$	422.2
- vs. prior year		22.7%		18.6%		-5.5%
- on constant currency		25.0%		16.7%		-7.3%
Sales	\$	609.2	\$	238.1	\$	406.4
- vs. prior year		-2.5%		-0.3%		-1.2%
- on constant currency		-1.1%		-2.4%		-2.9%
Gross Profit	\$	209.9	\$	66.7	\$	152.7
- vs. prior year		0.0%		7.2%		3.8%

Gross Margin (% of sales)	34.5%	28.0%	37.6%
- vs. prior year (in basis points)	90	200	180
Operating Income	\$ 103.8	\$ 31.6	\$ 79.1
- vs. prior year	5.7%	3.6%	8.5%
- on constant currency	7.7%	0.2%	7.2%
Operating Margin (% of sales)	17.0%	13.3%	19.5%
- vs. prior year (in basis points)	130	50	180
Backlog	\$ 1,546.0	\$ 556.1	\$ 811.7

## Second Quarter 2014 Results Conference Call

Flowserve will host its conference call with the financial community on Thursday, July 24<sup>th</sup> 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](http://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](http://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 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; increased aging and slower collection of receivables, particularly in Latin America and other emerging markets; 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**  
**(Unaudited)**

(Amounts in thousands, except per share data)

	Three Months Ended June 30,	
	2014	2013
Sales	\$ 1,224,378	\$ 1,239,526
Cost of sales	(794,072)	(817,950)
Gross profit	430,306	421,576
Selling, general and administrative expense	(238,178)	(240,200)
Net earnings from affiliates	2,187	2,145
Operating income	194,315	183,521
Interest expense	(15,027)	(13,125)
Interest income	507	277
Other (expense) income, net	(3,836)	616
Earnings before income taxes	175,959	171,289
Provision for income taxes	(50,794)	(50,395)
Net earnings, including noncontrolling interests	125,165	120,894
Less: Net earnings attributable to noncontrolling interests	(1,652)	(508)
Net earnings attributable to Flowserve Corporation	<u>\$ 123,513</u>	<u>\$ 120,386</u>
Net earnings per share attributable to Flowserve Corporation common shareholders:		
Basic	\$ 0.90	\$ 0.85
Diluted <sup>1</sup>	0.90	0.84
Cash dividends declared per share	\$ 0.16	\$ 0.14

<sup>1</sup> Calculated using fully diluted shares of 137,995 and 142,882 shares, respectively

## **CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

(Amounts in thousands, except per share data)

	Six Months Ended June 30,	
	2014	2013
Sales	\$ 2,292,514	\$ 2,336,122
Cost of sales	(1,485,086)	(1,541,238)
Gross profit	807,428	794,884
Selling, general and administrative expense	(454,405)	(474,708)

Net earnings from affiliates	5,617	33,824
Operating income	358,640	354,000
Interest expense	(30,176)	(25,216)
Interest income	838	551
Other expense, net	(6,741)	(10,412)
Earnings before income taxes	322,561	318,923
Provision for income taxes	(88,809)	(99,128)
Net earnings, including noncontrolling interests	233,752	219,795
Less: Net earnings attributable to noncontrolling interests	(2,505)	(1,619)
Net earnings attributable to Flowserve Corporation	<u>\$ 231,247</u>	<u>\$ 218,176</u>

Net earnings per share attributable to Flowserve Corporation common shareholders:

Basic	\$ 1.68	\$ 1.52
Diluted <sup>2</sup>	1.67	1.51
Cash dividends declared per share	\$ 0.32	\$ 0.28

<sup>2</sup> Calculated using fully diluted shares of 138,432 and 144,256 shares, respectively

## CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(Amounts in thousands, except par value)	June 30, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 143,569	\$ 363,804
Accounts receivable, net of allowance for doubtful accounts of \$25,422 and \$24,073, respectively	1,157,758	1,155,327
Inventories, net	1,160,181	1,060,670
Deferred taxes	158,276	157,448
Prepaid expenses and other	109,206	110,133
Total current assets	<u>2,728,990</u>	<u>2,847,382</u>
Property, plant and equipment, net of accumulated depreciation of \$866,938 and \$849,863, respectively	696,751	716,289
Goodwill	1,101,869	1,107,551
Deferred taxes	20,711	19,533

Other intangible assets, net	151,959	160,548
Other assets, net	185,830	185,430
Total assets	<u>\$ 4,886,110</u>	<u>\$ 5,036,733</u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 516,020	\$ 612,092
Accrued liabilities	756,604	861,010
Debt due within one year	65,698	72,678
Deferred taxes	12,394	12,319
Total current liabilities	<u>1,350,716</u>	<u>1,558,099</u>
Long-term debt due after one year	1,123,861	1,127,619
Retirement obligations and other liabilities	472,790	473,894
Shareholders' equity:		
Common shares, \$1.25 par value	220,991	220,991
Shares authorized – 305,000		
Shares issued – 176,793		
Capital in excess of par value	472,329	476,218
Retained earnings	3,172,209	2,985,391
Treasury shares, at cost – 41,036 and 39,630 shares, respectively	(1,737,419)	(1,600,266)
Deferred compensation obligation	10,282	9,522
Accumulated other comprehensive loss	(206,574)	(221,477)
Total Flowserve Corporation shareholders' equity	<u>1,931,818</u>	<u>1,870,379</u>
Noncontrolling interest	6,925	6,742
Total equity	<u>1,938,743</u>	<u>1,877,121</u>
Total liabilities and equity	<u>\$ 4,886,110</u>	<u>\$ 5,036,733</u>

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in thousands)

	Six Months Ended June	
	30,	
	<u>2014</u>	<u>2013</u>
Cash flows – Operating activities:		
Net earnings, including noncontrolling interests	\$ 233,752	\$ 219,795
Adjustments to reconcile net earnings to net cash used by operating activities:		
Depreciation	46,316	43,769
Amortization of intangible and other assets	9,327	7,854

Net (gain) loss on disposition of assets	(167)	347
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	(8,490)	(8,399)
Stock-based compensation	18,272	16,285
Net earnings from affiliates, net of dividends received	(1,294)	(2,748)
Change in assets and liabilities:		
Accounts receivable, net	(14,695)	5,892
Inventories, net	(115,109)	(120,671)
Prepaid expenses and other	(8,038)	(9,991)
Other assets, net	(1,692)	(2,032)
Accounts payable	(72,649)	(94,326)
Accrued liabilities and income taxes payable	(86,059)	(69,784)
Retirement obligations and other liabilities	(5)	7,848
Net deferred taxes	2,667	1,645
Net cash flows used by operating activities	<u>(11,267)</u>	<u>(32,826)</u>
Cash flows – Investing activities:		
Capital expenditures	(53,666)	(61,159)
Proceeds from disposal of assets	789	336
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 used by investing activities	<u>(6,072)</u>	<u>(24,726)</u>
Cash flows – Financing activities:		
Excess tax benefits from stock-based compensation arrangements	8,490	8,399
Payments on long-term debt	(20,000)	(10,000)
Short-term financing, net	-	209,000
Proceeds under other financing arrangements	13,233	9,701
Payments under other financing arrangements	(4,789)	(9,072)
Repurchases of common shares	(153,068)	(306,317)
Payments of dividends	(41,382)	(37,621)
Other	(2,499)	(73)
Net cash flows used by financing activities	<u>(200,015)</u>	<u>(135,983)</u>
Effect of exchange rate changes on cash	(2,881)	(6,005)
Net change in cash and cash equivalents	<u>(220,235)</u>	<u>(199,540)</u>
Cash and cash equivalents at beginning of period	363,804	304,252
Cash and cash equivalents at end of period	<u>\$ 143,569</u>	<u>\$ 104,712</u>

## SEGMENT INFORMATION

### ENGINEERED PRODUCT DIVISION

(Amounts in millions, except percentages)

	Three Months Ended June 30,	
	2014	2013
Bookings	\$ 744.3	\$ 606.5
Sales	609.2	625.0
Gross profit	209.9	210.0
Gross profit margin	34.5%	33.6%
Operating income	103.8	98.2
Operating margin	17.0%	15.7%

### INDUSTRIAL PRODUCT DIVISION

(Amounts in millions, except percentages)

	Three Months Ended June 30,	
	2014	2013
Bookings	\$ 248.0	\$ 209.1
Sales	238.1	238.9
Gross profit	66.7	62.2
Gross profit margin	28.0%	26.0%
Operating income	31.6	30.5
Operating margin	13.3%	12.8%

### FLOW CONTROL DIVISION

(Amounts in millions, except percentages)

	Three Months Ended June 30,	
	2014	2013
Bookings	\$ 422.2	\$ 447.0
Sales	406.4	411.2
Gross profit	152.7	147.1
Gross profit margin	37.6%	35.8%
Operating income	79.1	72.9
Operating margin	19.5%	17.7%

## SEGMENT INFORMATION

### ENGINEERED PRODUCT DIVISION

(Amounts in millions, except percentages)

	Six Months Ended June 30,	
	2014	2013
Bookings	\$ 1,338.5	\$ 1,182.3
Sales	1,114.4	1,164.6
Gross profit	388.4	398.2
Gross profit margin	34.9%	34.2%
Operating income	183.1	182.8
Operating margin	16.4%	15.7%

## INDUSTRIAL PRODUCT DIVISION

(Amounts in millions, except percentages)

	Six Months Ended June 30,	
	2014	2013
Bookings	\$ 476.7	\$ 416.2
Sales	449.9	450.2
Gross profit	121.9	115.2
Gross profit margin	27.1%	25.6%
Operating income	54.9	51.8
Operating margin	12.2%	11.5%

## FLOW CONTROL DIVISION

(Amounts in millions, except percentages)

	Six Months Ended June 30,	
	2014	2013
Bookings	\$ 835.9	\$ 877.6
Sales	789.3	795.2
Gross profit	297.1	281.0
Gross profit margin	37.6%	35.3%
Operating income	162.3	160.0
Operating margin	20.6%	20.1%

Source: Flowserve Corporation

Flowserve Corporation

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