



News Release

Flowserve Reports Third Quarter 2014 Results

10/23/14

Third Quarter EPS of \$0.93

(includes 1 cent net benefit from below-the-line FX partially offset by discrete non-cash charge)

Strong bookings of almost \$1.3 billion – up 3.7% over 2013 3rd quarter - drove YTD book-to-bill of 1.1

Increased gross and operating margins despite lower year-over-year revenues

Tightened 2014 Full Year EPS Target Range to \$3.65 to \$3.85

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

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

- Fully diluted EPS of \$0.93, up 3.3%, which included \$0.01 per share net benefit from foreign currency, partially offset by a discrete, non-cash charge in IPD
- Bookings of almost \$1.3 billion, up 3.7%, or 5.0% on a constant currency basis

- Original equipment bookings of \$756.3 million increased 0.8%, or 2.1% on a constant currency basis
- Aftermarket bookings of \$518.5 million increased 8.1%, or 9.4% on a constant currency basis
- Sales of \$1.2 billion, decreased 2.0%, or 0.7% on a constant currency basis, and was essentially flat as adjusted for divestitures and currency
 - Aftermarket sales of \$499.6 million increased 7.5%, or 8.8% on a constant currency basis
- Gross profit decreased \$1.2 million to \$421.5 million, or 0.3%
 - Gross margin of 35.0% increased 60 basis points, or was 35.3%, an increase of 90 basis points excluding a discrete non-cash charge in IPD
- SG&A expense decreased \$0.7 million to \$230.9 million
- Operating income decreased \$1.0 million to \$192.4 million, down 0.5%, or up 1.0% on a constant currency basis
- Operating margin of 16.0% increased 30 basis points, or was 16.3%, an increase of 60 basis points, excluding discrete non-cash charge in IPD
- Backlog increased \$265.4 million year-to-date to \$2.8 billion, up 10.4%, or 14.1% on a constant currency basis

"Flowserve's third quarter results demonstrated strong operational execution and the value inherent in our end-user strategies, aftermarket franchise, geographic and market diversity, broad product portfolio and disciplined approach," commented Mark Blinn, Flowserve's president and chief executive officer. "Although reported revenues were lower than expected due to a number of factors, we remain optimistic in our ability to grow the business based upon our solid bookings this year and expected execution of our growth strategies. We will continue to improve the efficiency of our global operating platform which will support, and better leverage, the expected long-term increase in activity for our key energy markets. Profitable growth remains a primary focus, including

M&A opportunities and organic initiatives, as we position the company to deliver and drive increased shareholder value. Key takeaways from the 2014 third quarter include:

- Solid book-to-bill of 1.06 increased our year-to-date backlog by \$265.4 million, up 10.4 percent or 14.1% constant currency, which provides confidence for solid performance in the 2014 fourth quarter and 2015;
- Focused end-user aftermarket strategies resulted in bookings over \$518 million, up 8.1%;
- Ongoing success of operational excellence initiatives, including 'One Flowserve', supported the third consecutive quarter of gross margins in excess of 35 percent with improved year-over-year operating margins;
- Strong operational performance has increased bandwidth to enhance and accelerate our organic growth and acquisitive growth strategies, and further pursue asset optimization strategies;
- Disciplined cost focus demonstrated by SG&A reductions for both the quarter and year-to-date;
- Continued solid improvement at IPD demonstrated by 13.8% operating margin, up 250 basis points, excluding \$3.5 million discrete, non-cash charge; and
- While the global demand environment is difficult to time, we remain confident that our diverse business model, growth strategies and investments supports long-term earnings growth."

Flowserve's financial results for the first nine months of 2014 (as compared to the 2013 period) are highlighted by fully diluted EPS of \$2.60 per share, up 7.9%, on relatively flat constant currency sales of \$3.5 billion, adjusted for divestitures. Gross profit of \$1.2 billion and operating income of \$551.1 million represent margins of 35.1% and 15.8%, up 90 and 40 basis points, respectively. Bookings for the nine months ended September 30, 2014 totaled \$3.9 billion, up 5.9% or 7.1% on a constant currency basis, representing a year-to-date book-to-bill of 1.1 times.

Operational Commentary and Segment Performance

Tom Pajonas, executive vice president and chief operating officer, said, "Flowserve's operations continued to perform well in the third quarter, demonstrating the significant improvements in recent years in both on-time delivery and past due backlog. The strong operating profile, coupled with our available capacity, positions us for the anticipated growth in our diverse end markets and geographies. During the third quarter, we continued to experience an increased level of finished product not yet required by our customers due to project delays, deferred product inspections and issued change orders, which impacted our ability to recognize additional revenues this quarter. Despite recent global market indicators of slowing activity and lower demand levels, we have seen a solid level of bids and proposal requests, even while additional uncertainty may enter our customers' decision processes. Nevertheless, we remain confident in the long-term strength of our energy markets.

"Our strong margin performance over the last few years is evidence of the consistent progress we have made from an operational excellence standpoint. While we are never finished on that front, the improvements in our platform provide opportunities to focus on footprint optimization, drive higher absorption rates, pursue inorganic opportunities and increase returns on our assets as we capitalize on the expected growth in our key energy markets."

Financial Performance and Guidance

"Flowserve's strong operational execution and cost focus delivered its highest quarterly level of net income outside a fourth quarter," indicated Mike Taff, Flowserve's senior vice president and chief financial officer. "Revenues, however, continued to be impacted by elevated customer directed delays, foreign currency headwinds, extended final-investment decision evaluations, challenges faced by certain emerging region customers and the impact of the 2014 first quarter sale of our Russian-focused Naval business. While Flowserve has finished product prepared to ship and manufacturing capacity for significant growth, predicting the timing of delivery dates and the recently volatile foreign currency movements has proven difficult and may persist. However, as is typical with our seasonality, we continue to expect the fourth quarter to generate the strongest earnings of the year, which provides confidence in our tightened 2014 EPS target range of \$3.65 to \$3.85, representing a 7 to 13 percent year-over-year increase, even as we now expect full-year revenues to be essentially flat on a constant currency basis.

"Additionally, we will continue to efficiently allocate capital in our business and opportunistic growth investments, as well as returning capital to shareholders. Year-to-date through the 2014 third quarter, Flowserve returned over \$250 million to shareholders in share repurchases and

dividends, and our repurchase plan has been incrementally more active through the recent market fluctuations."

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 third quarter of 2014 include:

Third Quarter 2014 - Segment Results

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

		EPD		IPD		FCD
Bookings	\$	684.9	\$	230.4	\$	392.0
- vs. prior year		2.9%		0.8%		5.0%
- on constant currency		5.5%		0.8%		4.8%
Sales	\$	620.9	\$	231.4	\$	387.0
- vs. prior year		(4.7)%		4.0%		(1.9)%
- on constant currency		(2.1)%		3.6%		(1.9)%
Gross Profit	\$	217.9	\$	60.6	\$	143.2
- vs. prior year		(0.6)%		6.7%		(2.8)%
Gross Margin (% of sales)		35.1%		26.2%		37.0%
- vs. prior year (in basis points)		140		70		-40
Operating Income	\$	112.1	\$	28.5	\$	72.3
- vs. prior year		(1.7)%		13.1%		(5.7)%
- on constant currency		1.0%		13.1%		(5.7)%
Operating Margin (% of sales)		18.1%		12.3%		18.7%
- vs. prior year (in basis points)		60		100		-70
Backlog	\$	1,557.0	\$	535.9	\$	789.7

Third Quarter 2014 Results Conference Call

Flowserve will host its conference call with the financial community on Friday, October 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 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 September 30,	
	2014	2013
Sales	\$ 1,204,012	\$ 1,229,057
Cost of sales	(782,522)	(806,318)
Gross profit	421,490	422,739
Selling, general and administrative expense	(230,872)	(231,569)
Net earnings from affiliates	1,825	2,218
Operating income	192,443	193,388
Interest expense	(15,130)	(13,046)
Interest income	400	325
Other income, net	5,612	1,733
Earnings before income taxes	183,325	182,400

Provision for income taxes	(52,725)	(55,870)
Net earnings, including noncontrolling interests	130,600	126,530
Less: Net earnings attributable to noncontrolling interests	(2,038)	(259)
Net earnings attributable to Flowserve Corporation	<u>\$ 128,562</u>	<u>\$ 126,271</u>

Net earnings per share attributable to Flowserve Corporation
common shareholders:

Basic	\$ 0.94	\$ 0.90
Diluted ¹	0.93	0.90
Cash dividends declared per share	\$ 0.16	\$ 0.14

¹Calculated using fully diluted shares of 137,529 and 141,085 shares, respectively

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Amounts in thousands, except per share data)

	Nine Months Ended September 30,	
	2014	2013
Sales	\$ 3,496,526	\$ 3,565,179
Cost of sales	(2,267,609)	(2,347,555)
Gross profit	1,228,917	1,217,624
Selling, general and administrative expense	(685,277)	(706,278)
Net earnings from affiliates	7,442	36,043
Operating income	551,082	547,389
Interest expense	(45,306)	(38,262)
Interest income	1,238	877
Other expense, net	(1,129)	(8,679)
Earnings before income taxes	505,885	501,325
Provision for income taxes	(141,533)	(154,998)
Net earnings, including noncontrolling interests	364,352	346,327
Less: Net earnings attributable to noncontrolling interests	(4,544)	(1,878)
Net earnings attributable to Flowserve Corporation	<u>\$ 359,808</u>	<u>\$ 344,449</u>

Net earnings per share attributable to Flowserve Corporation
common shareholders:

Basic	\$ 2.62	\$ 2.42
Diluted ²	2.60	2.41

Cash dividends declared per share	\$	0.48	\$	0.42
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²Calculated using fully diluted shares of 138,132 and 143,199 shares, respectively

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Amounts in thousands, except par value)	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 162,869	\$ 363,804
Accounts receivable, net of allowance for doubtful accounts of \$27,421 and \$24,073, respectively	1,131,075	1,155,327
Inventories, net	1,118,283	1,060,670
Deferred taxes	157,946	157,448
Prepaid expenses and other	103,037	110,133
Total current assets	<u>2,673,210</u>	<u>2,847,382</u>
Property, plant and equipment, net of accumulated depreciation of \$845,679 and \$849,863, respectively	678,307	716,289
Goodwill	1,079,327	1,107,551
Deferred taxes	21,261	19,533
Other intangible assets, net	145,956	160,548
Other assets, net	195,713	185,430
Total assets	<u>\$ 4,793,774</u>	<u>\$ 5,036,733</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 490,514	\$ 612,092
Accrued liabilities	758,799	861,010
Debt due within one year	54,122	72,678
Deferred taxes	11,170	12,319
Total current liabilities	<u>1,314,605</u>	<u>1,558,099</u>
Long-term debt due after one year	1,112,636	1,127,619
Retirement obligations and other liabilities	442,834	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	479,724	476,218
Retained earnings	3,278,771	2,985,391
Treasury shares, at cost – 41,513 and 39,630 shares, respectively	(1,772,808)	(1,600,266)
Deferred compensation obligation	10,420	9,522
Accumulated other comprehensive loss	(302,184)	(221,477)
Total Flowserve Corporation shareholders' equity	<u>1,914,914</u>	<u>1,870,379</u>
Noncontrolling interest	8,785	6,742
Total equity	<u>1,923,699</u>	<u>1,877,121</u>
Total liabilities and equity	<u>\$ 4,793,774</u>	<u>\$ 5,036,733</u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Amounts in thousands)

Nine Months Ended September
30,

<u>2014</u>	<u>2013</u>
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Cash flows – Operating activities:

Net earnings, including noncontrolling interests	\$ 364,352	\$ 346,327
Adjustments to reconcile net earnings to net cash used by operating activities:		
Depreciation	69,748	66,700
Amortization of intangible and other assets	13,555	11,884
Net gain on disposition of assets	(59)	(248)
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)	(10,104)
Stock-based compensation	26,685	24,395
Net earnings from affiliates, net of dividends received	(560)	(3,397)
Change in assets and liabilities:		
Accounts receivable, net	(27,146)	10,828
Inventories, net	(113,848)	(101,745)
Prepaid expenses and other	(16,765)	(6,870)
Other assets, net	(10,980)	(12,574)
Accounts payable	(88,380)	(126,976)
Accrued liabilities and income taxes payable	(56,984)	(61,139)

Retirement obligations and other	(11,524)	117
Net cash flows provided by operating activities	<u>126,201</u>	<u>108,888</u>
Cash flows – Investing activities:		
Capital expenditures	(83,602)	(94,702)
Proceeds from disposal of assets	1,613	969
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>(35,184)</u>	<u>(57,636)</u>
Cash flows – Financing activities:		
Excess tax benefits from stock-based compensation arrangements	8,490	10,104
Payments on long-term debt	(30,000)	(15,000)
Short-term financing, net	-	196,000
Proceeds under other financing arrangements	14,388	9,844
Payments under other financing arrangements	(16,377)	(10,415)
Repurchases of common shares	(188,324)	(370,127)
Payments of dividends	(63,287)	(57,337)
Other	(2,499)	(78)
Net cash flows used by financing activities	<u>(277,609)</u>	<u>(237,009)</u>
Effect of exchange rate changes on cash	(14,343)	(4,744)
Net change in cash and cash equivalents	<u>(200,935)</u>	<u>(190,501)</u>
Cash and cash equivalents at beginning of period	363,804	304,252
Cash and cash equivalents at end of period	<u>\$ 162,869</u>	<u>\$ 113,751</u>

SEGMENT INFORMATION

ENGINEERED PRODUCT DIVISION

(Amounts in millions, except percentages)

	Three Months Ended September 30,	
	2014	2013
Bookings	\$ 684.9	\$ 665.3
Sales	620.9	651.4
Gross profit	217.9	219.2
Gross profit margin	35.1%	33.7%
Operating income	112.1	114.0
Operating margin	18.1%	17.5%

INDUSTRIAL PRODUCT DIVISION

(Amounts in millions, except percentages)

Three Months Ended September 30,

	2014	2013
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Bookings	\$	230.4	\$	228.5
Sales		231.4		222.4
Gross profit		60.6		56.8
Gross profit margin		26.2%		25.5%
Operating income		28.5		25.2
Operating margin		12.3%		11.3%

FLOW CONTROL DIVISION

(Amounts in millions, except percentages)

	Three Months Ended September 30,			
	2014		2013	
Bookings	\$	392.0	\$	373.2
Sales		387.0		394.4
Gross profit		143.2		147.4
Gross profit margin		37.0%		37.4%
Operating income		72.3		76.7
Operating margin		18.7%		19.4%

SEGMENT INFORMATION

ENGINEERED PRODUCT DIVISION

(Amounts in millions, except percentages)

	Nine Months Ended September 30,			
	2014		2013	
Bookings	\$	2,023.0	\$	1,845.5
Sales		1,735.3		1,816.0
Gross profit		606.3		617.4
Gross profit margin		34.9%		34.0%
Operating income		295.2		296.8
Operating margin		17.0%		16.3%

INDUSTRIAL PRODUCT DIVISION

(Amounts in millions, except percentages)

	Nine Months Ended September 30,			
	2014		2013	
Bookings	\$	707.2	\$	643.3
Sales		681.3		672.6
Gross profit		182.5		172.0
Gross profit margin		26.8%		25.6%
Operating income		83.4		77.1
Operating margin		12.2%		11.5%

FLOW CONTROL DIVISION

(Amounts in millions, except percentages)

	Nine Months Ended September 30,			
	2014		2013	
Bookings	\$	1,227.2	\$	1,250.8
Sales		1,176.3		1,189.6

Gross profit	440.4	428.4
Gross profit margin	37.4%	36.0%
Operating income	234.6	236.7
Operating margin	19.9%	19.9%

Source: Flowserve Corporation

Flowserve

Investor Contacts:

Jay Roueche, 972-443-6560

Vice President, IR & Treasurer

or

Mike Mullin, 972-443-6636

Director, Investor Relations

or

Media Contact:

Lars Rosene, 972-443-6644

Vice President, Global Communications and Public Affairs