



News Release

Flowserve Corporation Reports First Quarter 2015 Results

04/30/15

Flowserve delivered strong adjusted gross margins; SIHI integration and synergies on track

Announces accelerated manufacturing optimization and cost reduction initiatives

Returned more than \$100 million to shareholders through repurchases and dividends

Revised 2015 full year guidance reflects quarter-end FX rates and current business environment

DALLAS--(BUSINESS WIRE)--Apr. 30, 2015-- Flowserve Corporation (NYSE: FLS), a leading provider of flow control products and services for the global infrastructure markets, today reported Adjusted¹ Earnings Per Share (EPS) of \$0.58 for the 2015 first quarter, which includes \$0.06 per share of negative currency translation as compared to last year, and excludes \$0.38 per share of adjusted items. As previously disclosed, Flowserve's 2015 Adjusted EPS calculation excludes the impact of the SIHI Group ("SIHI") acquisition, which was completed on January 7, 2015, as well as below-the-line foreign currency effects and specific one-time events, such as realignment.

First Quarter 2015 Summary (all comparisons versus prior year quarter, unless otherwise noted):

- Bookings were \$1.04 billion, including \$85.2 million from SIHI
 - Bookings included approximately \$577 million of original equipment and \$466 million of aftermarket bookings

- Excluding SIHI's contribution, bookings decreased 13.1% on a constant currency basis
- Sales were \$1.01 billion, including \$66.8 million from SIHI
 - Aftermarket sales were \$448 million, or approximately 44% of total sales
 - Excluding SIHI's contribution, aftermarket sales increased 1.8% constant currency
- Gross profit was \$331.7 million, including a \$0.6 million loss from SIHI
 - Excluding adjusted items, gross profit decreased 11.2%
 - Gross margin excluding adjusted items was flat at 35.3%, and up 10 basis points sequentially
- SG&A expense was \$239.9 million, including \$32.1 million from SIHI
 - Excluding 2014's gain on asset sale and 2015 adjusted items, SG&A expenses declined \$23.0 million
- Operating income was \$93.4 million, including a \$32.8 million loss from SIHI
 - Excluding the 2014 gain on asset sale and 2015 adjusted items, operating income decreased 5.8% on a constant currency basis.
 - Adjusted operating margin, excluding SIHI and other adjusted items, was 13.8% compared to 14.2% a year ago when excluding the 2014 gain on asset sale
- Backlog at March 31, 2015 was \$2.7 billion, including \$127.2 million from the SIHI acquisition, which was offset by approximately \$129.5 million of currency reduction

¹ See Reconciliation of Non-GAAP Measures table for detailed reconciliation of reported results to adjusted measures.

“Our 2015 first quarter results were lower than expected, specifically in the final month, by broad-based industrial spending declines, which originated in the oil and gas markets, and were further accentuated by the strengthening U.S. dollar,” said Mark Blinn, Flowserve’s president and chief executive officer. “Despite this environment, Flowserve continues to perform operationally at a high level, as evidenced by our adjusted gross margin. Additionally, our operational strength allows us to quickly react to the changing marketplace. We are accelerating our existing plans to capture available market opportunities, while driving additional cost savings through manufacturing optimization and SG&A efficiency initiatives. Flowserve has a proven track record of successfully managing through challenging markets, and I am confident we will emerge from the current market an even stronger company.

“We also remain committed to effectively allocating capital. In the 2015 first quarter, Flowserve returned over \$100 million to our shareholders through dividends and share repurchases. Since implementing our distribution policy in late 2011, Flowserve has now returned over \$1.9 billion to shareholders, which encompasses approximately 34.9 million shares repurchased at an average price below \$48, while maintaining a strong balance sheet. We believe our shares remain a compelling investment at current levels and we will continue to opportunistically repurchase shares.

“At the same time, we have strategically invested to grow our business. Most recently, our acquisition of SIHI brought complementary assets that enable Flowserve to penetrate attractive new markets, enhance our chemical ISO pump strategy and leverage cross-selling opportunities in the aftermarket and across our combined installed base. With the integration still in the early stages, SIHI is performing well, and we are pleased to have identified additional upside opportunities beyond our initial expectations.”

Operational Commentary and Segment Performance

Tom Pajonas, executive vice president and chief operating officer, said, “Following a record quarter at the end of 2014, the first quarter finished below expectations as customers delayed making purchase decisions, were slow to accept shipments, and aftermarket activities were tightly managed and deferred. Challenges in the oil & gas markets extended beyond this industry, as virtually all industries and regions declined year-over-year as customers evaluated current business conditions. Although we experienced soft markets in the first quarter, we believe operationally

Flowserve remains on a positive trajectory. We continue to see opportunities in our markets, however customers are increasingly focused on price competition, making our ability to provide differentiated products and services of critical importance. We remain focused on our key strategic priorities, including lean initiatives, enhancing our operational flexibility, strong project execution and further business improvements to drive value for our customers and shareholders alike.

“The company plans to accelerate its strategic plans, including significant targeted manufacturing optimization, through the transfer of activities from high-cost regions to lower-cost facilities, and SG&A efficiency initiatives. These actions will together lower our cost base through an approximate 5% reduction in workforce, in addition to the synergies associated with the SIHI acquisition, and deliver annualized run-rate savings of approximately \$70 million. We expect to make a near-term investment of approximately \$100 million in order to realize these savings and to better position Flowserve in any market condition.”

Financial Performance and Guidance

“The 2015 first quarter’s adjusted gross margin of 35.3 percent, flat with last year, demonstrates the strength of our operating platform, even in the current market environment,” indicated Malcolm Platt, interim chief financial officer. “Flowserve’s financial strength remains solid and provides the foundation to continue allocating capital for the most accretive use.

“Flowserve revised its 2015 revenue and Adjusted EPS guidance utilizing March 31, 2015 foreign currency rates and to reflect the current business environment. Full-year revenues, excluding SIHI, are now expected to be down 8% to 12%, reflecting a 10% currency headwind as compared to full year 2014. Constant currency revenue impact for the full year is expected to be between -2% to +2%.

“Primarily due to approximately \$0.20 per share of additional negative impact from quarter-end currency rates, but also reflecting general market conditions, Flowserve now expects Adjusted EPS in the range of \$3.25 to \$3.65. Reflecting traditional seasonality, adjusted 2015 results are expected to be second half weighted.

“As previously announced, Flowserve expects that the acquisition of SIHI will result in a net charge of approximately \$0.25 to full year 2015 reported earnings per share, primarily due to one-time purchase price accounting, integration and cost reduction expenses. The company recorded the majority of the expected one-time charges in the 2015 first quarter, to accelerate certain restructuring initiatives associated with the SIHI integration. As a result of these expenses, SIHI’s

impact was dilutive by \$0.18 per share to Flowserve's 2015 first quarter reported results, and this amount is excluded from Adjusted EPS. Flowserve continues to expect the SIHI acquisition to be modestly accretive on a reported basis in 2016, with full annualized run-rate synergies in place by year end 2017."

Platt concluded, "Also excluded from our 2015 first quarter Adjusted EPS are other specific one-time events including the impact from adopting the SIMADI currency mechanism to measure the company's Venezuelan net monetary assets, which produced a \$0.15 per share charge in the 2015 first quarter reported results. Additionally, the company incurred approximately \$0.05 per share, net, of below-the-line currency impacts, severance and realignment. Including the SIHI impact and other specific one-time events resulted in reported earnings per share of \$0.20 in the 2015 first quarter."

Please see Reconciliation of Non-GAAP Measures table for detailed reconciliation of reported results to Adjusted measures.

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 2015 include:

First Quarter 2015 - Segment Results

(dollars in millions, comparison vs. 2014 first quarter, unaudited)

	EPD	IPD	IPD-Ex SIHI	FCD
Bookings	\$ 495.4	\$ 247.7	\$ 162.5	\$ 323.0
- vs. prior year	-21.1%	29.1%	-15.3%	-21.9%
- on constant currency	-14.0%	34.4%	-10.1%	-15.7%
Sales	\$ 484.2	\$ 223.4	\$ 156.6	\$ 327.2
- vs. prior year	-7.6%	20.0%	-15.9%	-14.5%
- on constant currency	1.6%	26.0%	-9.9%	-7.2%
Gross Profit	\$ 165.6	\$ 42.9	\$ 43.5	\$ 118.9
- vs. prior year	-10.6%	-6.5%	-5.2%	-17.7%
Gross Margin (% of sales)	34.2%	19.2%	27.8%	36.3%
- vs. prior year (in basis points)	-120	-550	310	-140

Operating Income	\$ 68.8	\$ (13.3)	\$ 19.5	\$ 54.7
- vs. prior year	-15.5%	-170.7%	3.7%	-34.2%
- on constant currency	-5.9%	-163.3%	11.2%	-29.8%
Operating Margin (% of sales)	14.2%	-6.0%	12.5%	16.7%
- vs. prior year (in basis points)	-130	-1,610	240	-500
Backlog	\$ 1,460.5	\$ 533.1	\$ 405.9	\$ 733.9

First Quarter 2015 Results Conference Call

Flowserve will host its conference call with the financial community on Friday, May 1st 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 55 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 March 31,	
	2015	2014
Sales	\$ 1,014,620	\$ 1,068,136
Cost of sales	(682,890)	(691,014)
Gross profit	331,730	377,122
Selling, general and administrative expense	(239,927)	(216,227)
Net earnings from affiliates	1,573	3,431
Operating income	93,376	164,326
Interest expense	(16,037)	(15,149)
Interest income	758	331
Other expense, net	(19,946)	(2,905)
Earnings before income taxes	58,151	146,603
Provision for income taxes	(28,506)	(38,015)
Net earnings, including noncontrolling interests	29,645	108,588
Less: Net earnings attributable to noncontrolling interests	(1,979)	(854)
Net earnings attributable to Flowserve Corporation	<u>\$ 27,666</u>	<u>\$ 107,734</u>
Net earnings per share attributable to Flowserve Corporation common shareholders:		
Basic	\$ 0.21	\$ 0.78
Diluted	0.20	0.78
Cash dividends declared per share	\$ 0.18	\$ 0.16

RECONCILIATION OF NON-GAAP MEASURES
(Unaudited)

(Amounts in thousands, except per share data)	Three Months Ended March 31, 2015				
	As Reported (a)	SIHI Impact	(1)	Other Items	As Adjusted
Sales	\$ 1,014,620	\$ 66,849		\$ -	\$ 947,771
Gross profit (loss)	331,730	(647)	(2)	(2,539)	(5) 334,916
<i>Gross margin (loss)</i>	32.7%	-1.0%		-	35.3%
Selling, general and administrative expense	(239,927)	(32,126)	(3)	(2,121)	(6) (205,680)

(8) Includes tax impact of items above. Note: there is no tax benefit associated with the non-deductible \$18.477 million Venezuela remeasurement loss

SEGMENT INFORMATION

ENGINEERED PRODUCT DIVISION

(Amounts in millions, except percentages)

	Three Months Ended March 31,	
	2015	2014
Bookings	\$ 495.4	\$ 628.2
Sales	484.2	524.1
Gross profit	165.6	185.3
Gross profit margin	34.2%	35.4%
Operating income	68.8	81.4
Operating margin	14.2%	15.5%

INDUSTRIAL PRODUCT DIVISION

(Amounts in millions, except percentages)

	Three Months Ended March 31,	
	2015	2014
Bookings	\$ 247.7	\$ 191.8
Sales	223.4	186.2
Gross profit	42.9	45.9
Gross profit margin	19.2%	24.7%
Operating (loss) income	(13.3)	18.8
Operating margin	(6.0%)	10.1%

FLOW CONTROL DIVISION

(Amounts in millions, except percentages)

	Three Months Ended March 31,	
	2015	2014
Bookings	\$ 323.0	\$ 413.7
Sales	327.2	382.9
Gross profit	118.9	144.4
Gross profit margin	36.3%	37.7%
Operating income	54.7	83.1
Operating margin	16.7%	21.7%

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Amounts in thousands, except par value)	March 31,	December
	2015	31, 2014

ASSETS

Current assets:		
Cash and cash equivalents	\$ 333,776	\$ 450,350
Accounts receivable, net of allowance for doubtful accounts of \$27,125 and \$25,469, respectively	1,015,544	1,082,447
Inventories, net	1,118,940	995,564
Deferred taxes	158,803	158,912
Prepaid expenses and other	133,275	106,890
Total current assets	<u>2,760,338</u>	<u>2,794,163</u>
Property, plant and equipment, net of accumulated depreciation of \$813,562 and \$836,981, respectively	752,015	693,881
Goodwill	1,214,919	1,067,255
Deferred taxes	27,840	31,419
Other intangible assets, net	247,550	146,337
Other assets, net	249,019	234,965
Total assets	<u>\$ 5,251,681</u>	<u>\$ 4,968,020</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 484,542	\$ 611,715
Accrued liabilities	783,758	794,072
Debt due within one year	58,739	53,131
Deferred taxes	13,727	12,957
Total current liabilities	<u>1,340,766</u>	<u>1,471,875</u>
Long-term debt due after one year	1,620,782	1,101,791
Retirement obligations and other liabilities	525,991	452,511
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	471,516	495,600
Retained earnings	3,418,920	3,415,738
Treasury shares, at cost – 43,136 and 42,444 shares, respectively	(1,885,594)	(1,830,919)
Deferred compensation obligation	10,145	10,558
Accumulated other comprehensive loss	(484,114)	(380,406)
Total Flowserve Corporation shareholders' equity	<u>1,751,864</u>	<u>1,931,562</u>
Noncontrolling interests	12,278	10,281
Total equity	<u>1,764,142</u>	<u>1,941,843</u>
Total liabilities and equity	<u>\$ 5,251,681</u>	<u>\$ 4,968,020</u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)Three Months Ended March
31,

(Amounts in thousands)

	2015	2014
Cash flows – Operating activities:		
Net earnings, including noncontrolling interests	\$ 29,645	\$ 108,588
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	24,600	23,058
Amortization of intangible and other assets	9,244	4,305
Gain on sale of business	-	(13,403)
Excess tax benefits from stock-based payment arrangements	(5,800)	(8,353)
Stock-based compensation	9,095	9,916
Foreign currency and other non-cash adjustments	28,539	7,541
Change in assets and liabilities, net of acquisitions:		
Accounts receivable, net	59,396	77,264
Inventories, net	(117,848)	(76,990)
Prepaid expenses and other	(22,781)	(6,897)
Other assets, net	(2,330)	4,025
Accounts payable	(131,208)	(132,503)
Accrued liabilities and income taxes payable	2,698	(77,552)
Retirement obligations and other	14,432	(4,437)
Net deferred taxes	9,117	773
Net cash flows used by operating activities	(93,201)	(84,665)
Cash flows – Investing activities:		
Capital expenditures	(83,967)	(31,663)
Payments for acquisitions, net of cash acquired	(341,545)	-
Proceeds from disposal of assets	1,649	301
Proceeds from sale of business, net of cash divested	-	46,805
Net cash flows (used) provided by investing activities	(423,863)	15,443
Cash flows – Financing activities:		
Excess tax benefits from stock-based payment arrangements	5,800	8,353
Payments on long-term debt	(10,000)	(10,000)
Proceeds from issuance of senior notes	523,418	-
Payments of deferred loan costs	(1,005)	-
Proceeds under other financing arrangements	7,190	3,288
Payments under other financing arrangements	(5,207)	(1,479)
Repurchases of common shares	(79,899)	(109,605)
Payments of dividends	(21,686)	(19,387)
Other	264	(385)
Net cash flows provided (used) by financing activities	418,875	(129,215)

Effect of exchange rate changes on cash	(18,385)	(951)
Net change in cash and cash equivalents	<u>(116,574)</u>	<u>(199,388)</u>
Cash and cash equivalents at beginning of period	450,350	363,804
Cash and cash equivalents at end of period	<u>\$ 333,776</u>	<u>\$ 164,416</u>

Source: Flowserve Corporation

Flowserve Corporation

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