News Release

Flowserve Corporation Reports Third Quarter 2015 Results

10/29/15

Delivers Adjusted[1] EPS of $0.81 for 2015 Third Quarter

SIHI integration and realignment programs progressing better than expected

Returned $320 million to shareholders year-to-date through repurchases and dividends

Full year results in current market environment expected at or around the lower end of guidance range

DALLAS--(BUSINESS WIRE)--Oct. 29, 2015-- Flowserve Corporation (NYSE: FLS), a leading provider of flow control products and services for the global infrastructure markets, today reported Adjusted[1] Earnings Per Share (EPS) of $0.81 for the 2015 third quarter, which includes $0.06 per share of negative currency translation as compared to last year and $0.03 per share of bad debt expense. 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 the 2015 realignment initiatives. In the 2015 third quarter, Flowserve's Adjusted EPS excluded $0.11 per share of these items.

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

- Bookings were $1.06 billion, including $69.7 million from SIHI

- Excluding SIHI's contribution, bookings decreased 6.3% sequentially and 14.6% as compared to prior year on a constant currency basis
- Aftermarket bookings of $482 million, included $22 million from SIHI, and increased 2.0% sequentially and 2.1% compared to the prior year on a constant currency basis
- Excluding SIHI's contribution, aftermarket bookings increased 2.3% sequentially and decreased 2.2% compared to the prior year on a constant currency basis

- Sales were $1.10 billion, including $73.7 million from SIHI
  - Excluding SIHI's contribution, sales decreased 4.5% sequentially and 5.6% as compared to prior year on a constant currency basis
  - Aftermarket sales were $462 million, or approximately 42% of total sales, and decreased 4.6% sequentially and increased 1.8% compared to prior year on a constant currency basis
  - Excluding SIHI's contribution, aftermarket sales decreased 2.3% on a constant currency basis

- Gross profit was $388.8 million, including $20.9 million from SIHI
  - Gross profit increased 1.4% on a constant currency basis
  - Gross margin excluding adjusted items was 36.1%, up 110 basis points

- SG&A expense was $223.5 million, including $20.5 million from SIHI
  - Excluding SIHI and adjusted items, SG&A decreased $27.9 million or 12.1%

- Operating income was $167.8 million, including realignment expense of $1.7 million

    - Adjusted operating margin, excluding realignment expenses and SIHI operating income of $0.4 million, was 16.5%, up 50 basis points

- Backlog at September 30, 2015 was $2.56 billion, including SIHI backlog of $118 million
    - Excluding SIHI, backlog decreased 5.2% constant currency as compared to prior year

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

“Flowserve produced solid operating results for the 2015 third quarter against a persistently challenging market environment, which included constrained global capital spending, a further reduction in oil prices, weakness in our short cycle and emerging markets and the strong U.S. dollar,” said Mark Blinn, Flowserve’s president and chief executive officer. “Operationally, we continued to execute at a high level as evidenced by our strong margin performance.”

“We are moving quickly on our previously announced $100 million of realignment investment including immediate headcount reductions as well as the announcements of several permanent facility closures. We are also identifying at least $25 million of additional investment to further reduce our cost structure through a variety of levers, including streamlining our management structure, improving our manufacturing costs and implementing additional product rationalization, with dollar for dollar cost savings opportunity.”

“With the success of our previously announced actions underway and new opportunities identified, we now believe Flowserve will deliver approximately $125 million of structural run-rate savings annually, compared to an earlier estimate of $70 million, on a total investment of approximately $125 million. Additionally, the integration and realignment activities associated with our SIHI acquisition remain on-track to support SIHI product growth. We will continue to focus on disciplined investment opportunities, such as these, to drive long-term value for our shareholders, to effectively capitalize on opportunities as and when markets improve,” Blinn added.

“We have successfully weathered difficult market cycles before, and are taking swift action to best position Flowserve through the current cycle and to offset near-term market weakness. Overall, we remain confident in the underlying strength of our platform, the long-term secular trends in our served markets, our ability for further long-term continuous improvement and our knowledge that we are well positioned strategically to drive long-term growth," Blinn concluded.

Financial Performance and Guidance

Karyn Ovelmen, executive vice president and chief financial officer, commented, "Our third quarter adjusted results were highlighted by our gross and operating margin performance. Adjusted EPS[1] of $0.81 was solid in the current environment, considering the negative currency translation and $0.03 per share of bad debt expense. Flowserve's reported earnings for the 2015 third quarter were $0.70 per share, reflecting the impact of adjusted items which include negative below-the-line currency impact of $0.02, realignment expenses of $0.01, and a non-cash valuation allowance on deferred tax assets of $0.08."

Flowserve maintained its EPS and revenue guidance, but now expects it to track at or around the lower end of its Adjusted EPS and revenue guidance of $3.10 to $3.40 and down 10% to 15%, respectively, both excluding SIHI. This expectation is based upon third quarter year-to-date results and reflects increased uncertainty and reduced visibility in our markets, particularly as it relates to customer spending and order acceptance.

Segment Performance

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 2015 include:

Third Quarter and Year-to-Date 2015 - Segment Results

(dollars in millions, comparison vs. 2014 third quarter and full year, unaudited)

	EPD		IPD		IPD Ex-SIHI		FCD	
	3rd Qtr	**YTD**	**3rd Qtr**	**YTD**	**3rd Qtr**	**YTD**	**3rd Qtr**	**YTD**
Bookings	$537.5	$1,608.0	$236.5	$689.9	$166.8	$472.5	$311.1	$ 988.6
- vs. prior year	-26.1%	-24.3%	33.1%	17.1%	-6.1%	-19.8%	-20.6%	-19.4%
- on constant currency	-17.2%	-15.7%	40.1%	22.7%	0.8%	-14.2%	-14.5%	-12.6%

Sales	$514.5	$1,569.4	$241.6	$725.8	$167.9	$508.0	$367.9	$1,051.5
- vs. prior year	-19.8%	-13.1%	18.9%	22.4%	-17.4%	-14.4%	-4.9%	-10.6%
- on constant currency	-9.7%	-3.0%	24.9%	29.1%	-11.4%	-7.7%	4.7%	-2.0%
Gross Profit	$180.4	$ 535.9	$ 69.0	$170.7	$ 48.1	$141.6	$136.6	$ 379.2
- vs. prior year	-18.3%	-14.4%	27.3%	6.6%	-11.3%	-11.6%	-4.6%	-13.9%
Gross Margin (% of sales)	35.1%	34.1%	28.6%	23.5%	28.6%	27.9%	37.1%	36.1%
- vs. prior year (in basis points)	70	-60	190	-350	190	90	10	-130
Operating Income	$ 77.7	$ 232.8	$ 25.0	$ 18.7	$ 24.6	$ 67.5	$ 77.1	$ 186.3
- vs. prior year	-29.6%	-22.5%	-7.1%	-75.4%	-8.6%	-11.1%	6.6%	-20.6%
- on constant currency	-25.5%	-16.1%	-3.7%	-70.2%	-5.2%	-5.9%	14.2%	-15.5%
Operating Margin (% of sales)	15.1%	14.8%	10.3%	2.6%	14.7%	13.3%	21.0%	17.7%
- vs. prior year (in basis points)	-210	-180	-290	-1020	150	50	230	-220
Adjusted Operating Income *	$ 79.4	$ 245.1	$ 25.0	$ 21.0	$ 24.6	$ 69.8	$ 77.1	$ 198.6
- vs. prior year	-28.0%	-18.4%	-7.1%	-72.3%	-8.6%	-8.0%	6.6%	-15.3%
- on constant	-23.9%	-12.0%	-3.7%	-67.2%	-5.2%	-2.9%	14.2%	-10.2%

currency								
Adj. Oper. Margin (% of sales)*	15.4%	15.6%	10.3%	2.9%	14.7%	13.7%	21.0%	18.9%
- vs. prior year (in basis points)	-180	-100	-290	-990	150	90	230	-100
Backlog		$1,488.9		$486.8		$368.8		$ 657.8

*Adjusted Operating Income and Adjusted Operating Margin exclude realignment charges, purchase price accounting charges and acquisition related costs

Third Quarter 2015 Results Conference Call

Flowserve will host its conference call with the financial community on Friday, October 30th 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 global economic conditions 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; our ability to execute and realize the expected financial benefits from our strategic manufacturing optimization and realignment initiatives; 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 ability to anticipate and manage cybersecurity risk, including the risk of potential business disruptions or financial losses; 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 BALANCE SHEETS
(Unaudited)

(Amounts in thousands, except par value)	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 237,842	$ 450,350
Accounts receivable, net of allowance for doubtful accounts of $34,653 and $25,469, respectively	999,700	1,082,447
Inventories, net	1,116,445	995,564
Deferred taxes	137,773	158,912
Prepaid expenses and other	157,969	106,890
Total current assets	2,649,729	2,794,163
Property, plant and equipment, net of accumulated depreciation of $854,736 and $836,981, respectively	756,179	693,881
Goodwill	1,234,858	1,067,255
Deferred taxes	24,918	31,419
Other intangible assets, net	235,871	146,337
Other assets, net	256,700	234,965
Total assets	$ 5,158,255	$ 4,968,020
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 459,013	$ 611,715
Accrued liabilities	772,789	794,072
Debt due within one year	68,893	53,131
Deferred taxes	13,584	12,957
Total current liabilities	1,314,279	1,471,875
Long-term debt due after one year	1,610,059	1,101,791
Retirement obligations and other liabilities	529,371	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	486,787	495,600

Retained earnings	3,539,468	3,415,738
Treasury shares, at cost – 46,496 and 42,444 shares, respectively	(2,053,128)	(1,830,919)
Deferred compensation obligation	10,095	10,558
Accumulated other comprehensive loss	(515,890)	(380,406)
Total Flowserve Corporation shareholders' equity	1,688,323	1,931,562
Noncontrolling interests	16,223	10,281
Total equity	1,704,546	1,941,843
Total liabilities and equity	$ 5,158,255	$ 4,968,020

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September 30,	
(Amounts in thousands, except per share data)	2015	2014
Sales	$ 1,096,476	$ 1,204,012
Cost of sales	(707,726)	(782,522)
Gross profit	388,750	421,490
Selling, general and administrative expense	(223,516)	(230,872)
Net earnings from affiliates	2,615	1,825
Operating income	167,849	192,443
Interest expense	(16,283)	(15,130)
Interest income	499	400
Other (expense) income, net	(5,430)	5,612
Earnings before income taxes	146,635	183,325
Provision for income taxes	(52,099)	(52,725)
Net earnings, including noncontrolling interests	94,536	130,600
Less: Net earnings attributable to noncontrolling interests	(913)	(2,038)
Net earnings attributable to Flowserve Corporation	$ 93,623	$ 128,562
Net earnings per share attributable to Flowserve Corporation common shareholders:		
Basic	$ 0.71	$ 0.94
Diluted	0.70	0.93
Cash dividends declared per share	$ 0.18	$ 0.16

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share data)	Nine Months Ended September 30, 2015	2014
Sales	$ 3,273,342	$ 3,496,526
Cost of sales	(2,183,770)	(2,267,609)
Gross profit	1,089,572	1,228,917
Selling, general and administrative expense	(707,037)	(685,277)
Net earnings from affiliates	6,268	7,442
Operating income	388,803	551,082
Interest expense	(47,712)	(45,306)
Interest income	1,504	1,238
Other expense, net	(30,258)	(1,129)
Earnings before income taxes	312,337	505,885
Provision for income taxes	(111,525)	(141,533)
Net earnings, including noncontrolling interests	200,812	364,352
Less: Net earnings attributable to noncontrolling interests	(4,515)	(4,544)
Net earnings attributable to Flowserve Corporation	$ 196,297	$ 359,808
Net earnings per share attributable to Flowserve Corporation common shareholders:		
Basic	$ 1.47	$ 2.62
Diluted	1.46	2.60
Cash dividends declared per share	$ 0.54	$ 0.48

RECONCILIATION OF NON-GAAP MEASURES
(Unaudited)

(Amounts in thousands, except per share data)	Three Months Ended September 30, 2015 As Reported (a)	SIHI Impact	(1)	Other Items		As Adjusted
Sales	$ 1,096,476	$ 73,744		$ -		$1,022,732
Gross profit (loss)	388,750	20,883	(2)	(1,657)	(5)	369,524
Gross margin (loss)	*35.5%*	*28.3%*		-		*36.1%*

Selling, general and administrative expense	(223,516)	(20,519)	(3)	(75)	(6)	(202,922)
Operating income (loss)	167,849	364		(1,732)		169,217
Operating income (loss) as a percentage of sales	*15.3%*	*0.5%*		-		*16.5%*
Interest and other (expense) income, net	(21,214)	(329)		(4,524)	(7)	(16,361)
Earnings (loss) before income taxes	146,635	35		(6,256)		152,856
Provision for income taxes	(52,099)	(10)	(4)	(8,136)	(8)	(43,953)
Tax Rate	*35.5%*	*29.8%*		*130.0%*		*28.8%*
Net earnings (loss) attributable to Flowserve Corporation	**$ 93,623**	**$ 25**		**$ (14,392)**		**$ 107,990**
Net earnings per share attributable to Flowserve Corporation common shareholders:						
Basic	$ 0.71	$ 0.00		$ (0.11)		$ 0.81
Diluted	$ 0.70	$ 0.00		$ (0.11)		$ 0.81
Basic number of shares used for calculation	132,550	132,550		132,550		132,550
Diluted number of shares used for calculation	133,160	133,160		133,160		133,160

(a) Reported in conformity with U.S. GAAP

Notes:

(1) Represents the results of SIHI, including related realignment charges, acquisition-related costs and purchase price adjustment ("PPA") expenses
(2) SIHI sales less SIHI cost of sales which includes $3.355 million of PPA expense and $0.145 million of realignment charges
(3) SIHI SG&A, which includes $1.127 million of PPA expenses, $0.092 million of realignment charges and $1.411 million of acquisition-related costs
(4) Includes tax impact of items above
(5) Represents $1.657 million of realignment charges
(6) Represents $0.075 million of realignment charges
(7) Represents $4.524 million of below-the-line foreign exchange impacts

(8) Includes tax impact of items above and a $10.000 million tax charge related to a valuation allowance for Brazilian deferred tax assets

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Amounts in thousands)	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Cash flows – Operating activities:		
Net earnings, including noncontrolling interests	$ 200,812	$ 364,352
Adjustments to reconcile net earnings to net cash used by operating activities:		
Depreciation	73,652	69,748
Amortization of intangible and other assets	25,918	13,555
Gain on sale of business	-	(13,403)
Excess tax benefits from stock-based payment arrangements	(6,822)	(8,490)
Stock-based compensation	26,027	26,685
Foreign currency and other non-cash adjustments	54,635	22,174
Change in assets and liabilities, net of acquisitions:		
Accounts receivable, net	66,660	(38,798)
Inventories, net	(119,530)	(124,539)
Prepaid expenses and other	(15,336)	(17,568)
Other assets, net	(17,890)	(16,858)
Accounts payable	(157,930)	(88,255)
Accrued liabilities and income taxes payable	(30,014)	(50,305)
Retirement obligations and other liabilities	(6,402)	(9,651)
Net deferred taxes	37,261	1,205
Net cash flows provided by operating activities	131,041	129,852
Cash flows – Investing activities:		
Capital expenditures	(138,532)	(83,602)
Payments for acquisition, net of cash acquired	(353,654)	-
Proceeds from disposal of assets	4,103	1,613
Proceeds from sale of business, net of cash divested	-	46,805
Net cash flows used by investing activities	(488,083)	(35,184)
Cash flows – Financing activities:		
Excess tax benefits from stock-based payment arrangements	6,822	8,490
Payments on long-term debt	(30,000)	(30,000)
Proceeds from issuance of senior notes	526,332	-
Payments of deferred loan costs	(5,108)	-

Proceeds under other financing arrangements	8,157	14,388
Payments under other financing arrangements	(15,524)	(16,377)
Repurchases of common shares	(249,682)	(188,324)
Payments of dividends	(70,000)	(63,287)
Other	192	(2,499)
Net cash flows provided (used) by financing activities	171,189	(277,609)
Effect of exchange rate changes on cash	(26,655)	(17,994)
Net change in cash and cash equivalents	(212,508)	(200,935)
Cash and cash equivalents at beginning of period	450,350	363,804
Cash and cash equivalents at end of period	$ 237,842	$ 162,869

SEGMENT INFORMATION

ENGINEERED PRODUCT DIVISION	Three Months Ended September 30,	
(Amounts in millions, except percentages)	2015	2014
Bookings	$ 537.5	$ 727.7
Sales	514.5	641.4
Gross profit	180.4	220.9
Gross profit margin	35.1%	34.4%
Operating income	77.7	110.3
Operating margin	15.1%	17.2%

INDUSTRIAL PRODUCT DIVISION	Three Months Ended September 30,	
(Amounts in millions, except percentages)	2015	2014
Bookings	$ 236.5	$ 177.7
Sales	241.6	203.2
Gross profit	69.0	54.2
Gross profit margin	28.6%	26.7%
Operating income	25.0	26.9
Operating margin	10.3%	13.2%

FLOW CONTROL DIVISION	Three Months Ended September 30,	
(Amounts in millions, except percentages)	2015	2014
Bookings	$ 311.1	$ 392.0
Sales	367.9	387.0
Gross profit	136.6	143.2
Gross profit margin	37.1%	37.0%
Operating income	77.1	72.3
Operating margin	21.0%	18.7%

SEGMENT INFORMATION

ENGINEERED PRODUCT DIVISION	Nine Months Ended September 30,	
(Amounts in millions, except percentages)	2015	2014
Bookings	$ 1,608.0	$ 2,124.1
Sales	1,569.4	1,805.7
Gross profit	535.9	626.4
Gross profit margin	34.1%	34.7%
Operating income	232.8	300.5
Operating margin	14.8%	16.6%

INDUSTRIAL PRODUCT DIVISION	Nine Months Ended September 30,	
(Amounts in millions, except percentages)	2015	2014
Bookings	$ 689.9	$ 589.1
Sales	725.8	593.2
Gross profit	170.7	160.2
Gross profit margin	23.5%	27.0%
Operating income	18.7	75.9
Operating margin	2.6%	12.8%

FLOW CONTROL DIVISION	Nine Months Ended September 30,	
(Amounts in millions, except percentages)	2015	2014
Bookings	$ 988.6	$ 1,227.2
Sales	1,051.5	1,176.3
Gross profit	379.2	440.4
Gross profit margin	36.1%	37.4%
Operating income	186.3	234.6
Operating margin	17.7%	19.9%

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