



News Release

Flowserve Corporation Reports First Quarter 2016 Results

04/28/16

DALLAS--(BUSINESS WIRE)--Apr. 28, 2016-- Flowserve Corporation (NYSE: FLS), a leading provider of flow control products and services for the global infrastructure markets, today reported its financial results for the first quarter ended March 31, 2016.

First Quarter 2016 Highlights

- Adjusted Earnings Per Share (EPS)^[1] was \$0.39
 - Includes approximately \$13.1 million, or \$0.07 per share of distinct SG&A expenses, primarily related to accelerated non-cash accruals related to modifications in new long-term incentive plan grants, and approximately \$0.03 per share of negative currency translation
 - Excludes \$0.10 per share of adjusted items, as detailed herein
- Sales were \$947 million, down 6.6%, or 2.1% on a constant currency basis
 - Original equipment sales were \$525 million, down 3.2% on a constant currency basis
 - Aftermarket sales were \$424 million, down 0.7% on a constant currency basis
- Total Bookings were \$922 million, down 7.8% on a constant currency basis

- Aftermarket bookings were \$447 million, up 0.6% on a constant currency basis
- Realignment program on track; achieved \$16 million of program savings in the quarter
- Backlog at March 31, 2016 was \$2.19 billion, up 0.8% versus year-end 2015

“Our 2016 first quarter results were in line with our expectations,” said Mark Blinn, Flowserve’s president and chief executive officer. “We are encouraged to see aftermarket spending stabilizing at current levels, despite ongoing industry headwinds and macro uncertainty, particularly as it relates to capital investment. Project booking opportunities remain challenged and competitively priced, particularly in our IPD segment. However these issues were partially offset by improvements in IPD’s aftermarket and run-rate business, distribution strategy and in SIHI as IPD transitions from a project-dependent business to more of an industrial offering.

“During the quarter, we continued to deliver solid progress on our transformational realignment program. While the benefits derived lag the market and are second-half weighted in 2016, to date we have achieved cumulative program savings of approximately \$41 million and remain focused on optimizing our manufacturing platform and cost structure with our customer needs.

“We also remain focused on driving profitable long-term growth including through our aftermarket and distribution initiatives, R&D investments and opportunistic bolt-on acquisitions. We are confident that our combined approach of realigning our cost structure and pursuing strategic growth opportunities positions us well to achieve our goals and continue delivering value for both our customers and shareholders,” Blinn concluded.

First Quarter 2016

For the first quarter of 2016, Flowserve announced Adjusted EPS of \$0.39 on revenues of \$947 million. Adjusted gross and operating margins were 33.3% and 9.4%, respectively. First quarter Adjusted EPS includes \$0.03 of negative currency translation and \$0.07 for distinct SG&A expenses, but excludes the impact of realignment expenses of \$0.07, negative below-the-line currency impact of \$0.02 and \$0.01 of SIHI purchase price accounting and integration costs. On a reported basis, earnings for the first quarter were \$0.29 per share, compared to \$0.20 per share in the 2015 first quarter.

Commenting on first quarter 2016 performance, Karyn Ovelmen, Flowserve's executive vice president and chief financial officer said, "Cash flows from operations improved over \$85 million for our seasonally weakest quarter, and free cash flow increased almost \$150 million versus the comparable prior year period. Incorporating SIHI's operational performance, combined with the loss of fixed cost leverage from reduced project activity and the 140 basis points from distinct SG&A expenses, were among the factors impacting our margin performance in the quarter. While the recognition of our realignment savings gets temporarily affected by timing and some delays due to ongoing negotiations, we are confident in the significant actions we are taking to successfully drive costs out of our business and to better position our company for long-term margin improvement."

Realignment Program

In the 2016 first quarter, Flowserve achieved cost savings of approximately \$16 million and continues to expect full year 2016 savings of \$125 million. The Company expensed \$13.5 million during the quarter related to realignment efforts, and for the full year 2016 continues to expect to incur realignment charges of approximately \$160 million. Since the first quarter of 2015, we have taken action to repurpose or close 13 facilities and have meaningfully reduced headcount, while continuing to target a total reduction of approximately 15-20% by the end of next year.

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 first quarter include:

First Quarter 2016 Segment Results

(dollars in millions, comparison vs 2015 first quarter, unaudited)

	EPD	IPD	FCD
	1st Qtr	1st Qtr	1st Qtr
Bookings	\$ 424.5	\$ 207.7	\$ 310.1
- vs prior year	-14.3%	-16.1%	-4.0%
- on constant currency	-9.6%	-13.8%	-0.7%
Sales	\$ 473.8	\$ 197.5	\$ 299.0
- vs prior year	-2.1%	-11.6%	-8.6%

- on constant currency		4.7%	-9.0%	-6.3%
Gross Profit	\$	158.0	\$ 50.2	\$ 99.0
- vs prior year		-4.6%	17.0%	-16.7%
Gross Margin (% of Sales)		33.3%	25.4%	33.1%
- vs prior year (in basis points)		-90	620	-320
Operating Income	\$	58.4	\$ 4.0	\$ 38.9
- vs prior year		-15.1%	NM	-28.9%
- on constant currency		-8.4%	NM	-27.2%
Operating Margin (% of Sales)		12.3%	2.0%	13.0%
- vs prior year (in basis points)		-190	800	-370
Adjusted Operating Income*	\$	62.2	\$ 9.3	\$ 44.5
- vs prior year		-9.6%	-56.9%	-18.6%
- on constant currency		-2.9%	-61.1%	-17.0%
Adjusted Oper Margin (% of Sales)		13.1%	4.7%	14.9%
- vs prior year (in basis points)		-110	-500	-180
Backlog	\$	1,132.6	\$ 441.6	\$ 641.5

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

Full Year 2016 Guidance

Flowserve reaffirmed its 2016 Adjusted^[2] EPS target range of \$2.40 to \$2.75 with expected revenues declining 7 to 14 percent year-over-year, including a forecasted 2 percent currency headwind. The company expects its 2016 Adjusted EPS to be weighted toward the second half of 2016, reflecting normal seasonality.

First Quarter 2016 Results Conference Call

Flowserve will host its conference call with the financial community on Friday, April 29th 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.

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

[2] Adjusted 2016 EPS will include SIHI's operational results and will exclude the Company's realignment expenses, SIHI purchase price accounting/integration costs, the impact from other specific one-time events and below-the-line foreign currency effects

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)	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		

Cash and cash equivalents	\$ 310,318	\$ 366,444
Accounts receivable, net of allowance for doubtful accounts of \$46,914 and \$43,936, respectively	914,684	988,391
Inventories, net	1,088,155	995,565
Prepaid expenses and other	116,032	125,410
Total current assets	<u>2,429,189</u>	<u>2,475,810</u>
Property, plant and equipment, net of accumulated depreciation of \$892,200 and \$855,214, respectively	767,633	758,427
Goodwill	1,240,187	1,223,986
Deferred taxes	82,969	69,327
Other intangible assets, net	228,294	228,777
Other assets, net	232,778	224,330
Total assets	<u>\$ 4,981,050</u>	<u>\$ 4,980,657</u>

LIABILITIES AND EQUITY

Current liabilities:

Accounts payable	\$ 410,115	\$ 491,378
Accrued liabilities	807,121	796,764
Debt due within one year	62,566	60,434
Total current liabilities	<u>1,279,802</u>	<u>1,348,576</u>
Long-term debt due after one year	1,573,450	1,560,562
Retirement obligations and other liabilities	386,812	387,786
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	480,369	494,961
Retained earnings	3,599,869	3,587,120
Treasury shares, at cost – 47,161 and 47,703 shares, respectively	(2,084,240)	(2,106,785)
Deferred compensation obligation	9,313	10,233
Accumulated other comprehensive loss	(503,637)	(540,043)
Total Flowserve Corporation shareholders' equity	<u>1,722,665</u>	<u>1,666,477</u>
Noncontrolling interests	18,321	17,256
Total equity	<u>1,740,986</u>	<u>1,683,733</u>
Total liabilities and equity	<u>\$ 4,981,050</u>	<u>\$ 4,980,657</u>

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

Three Months Ended March
31,

(Amounts in thousands, except per share data)

<u>2016</u>	<u>2015</u>
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Sales	\$ 947,248	\$ 1,014,620
Cost of sales	(639,247)	(682,890)
Gross profit	308,001	331,730
Selling, general and administrative expense	(236,910)	(239,927)
Net earnings from affiliates	3,319	1,573
Operating income	74,410	93,376
Interest expense	(14,568)	(16,037)
Interest income	676	758
Other expense, net	(4,543)	(19,946)
Earnings before income taxes	55,975	58,151
Provision for income taxes	(17,691)	(28,506)
Net earnings, including noncontrolling interests	38,284	29,645
Less: Net earnings attributable to noncontrolling interests	(425)	(1,979)
Net earnings attributable to Flowserve Corporation	\$ 37,859	\$ 27,666

Net earnings per share attributable to Flowserve Corporation
common shareholders:

Basic	\$ 0.29	\$ 0.21
Diluted	0.29	0.20
Cash dividends declared per share	\$ 0.19	\$ 0.18

RECONCILIATION OF NON-GAAP MEASURES (Unaudited)

(Amounts in thousands, except per share data)	Three Months Ended March 31, 2016			
	As Reported (a)	Realignment (1)	Other Items	As Adjusted
Sales	\$ 947,248	\$ -	\$ -	\$ 947,248
Gross profit (loss)	308,001	(7,211)	-	315,212
<i>Gross margin (loss)</i>	32.5%	-	-	33.3%
Selling, general and administrative expense	(236,910)	(6,260)	(1,338) (3)	(229,312)
Operating income (loss)	74,410	(13,471)	(1,338)	89,219
<i>Operating income (loss) as a percentage of sales</i>	7.9%	-	-	9.4%

Interest and other (expense) income, net	(18,435)	-	(3,598) (4)	(14,837)
Earnings (loss) before income taxes	55,975	(13,471)	(4,936)	74,382
Provision for income taxes	(17,691)	4,203 (2)	1,540 (5)	(23,434)
<i>Tax Rate</i>	<i>31.6%</i>	<i>31.2%</i>	<i>31.2%</i>	<i>31.5%</i>

Net earnings (loss) attributable to Flowserve Corporation

\$ 37,859 \$ (9,268) \$ (3,396) \$ 50,523

Net earnings per share attributable to Flowserve Corporation common shareholders:

Basic	\$ 0.29	\$ (0.07)	\$ (0.03)	\$ 0.39
Diluted	\$ 0.29	\$ (0.07)	\$ (0.03)	\$ 0.39

Basic number of shares used for calculation	130,142	130,142	130,142	130,142
Diluted number of shares used for calculation	130,812	130,812	130,812	130,812

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

Notes:

- (1) Represents realignment expense incurred as a result of realignment programs
- (2) Includes tax impact of items above
- (3) Represents SIHI integration costs and purchase price adjustments ("PPA")
- (4) Represents below-the-line foreign exchange impacts
- (5) Includes tax impact of items above

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Amounts in thousands)	Three Months Ended March 31,	
	2016	2015
Cash flows – Operating activities:		
Net earnings, including noncontrolling interests	\$ 38,284	\$ 29,645
Adjustments to reconcile net earnings to net cash provided by operating activities:		

Depreciation	24,505	24,600
Amortization of intangible and other assets	4,123	9,244
Tax deficiencies (excess tax benefits) from stock-based payment arrangements	45	(5,800)
Stock-based compensation	15,957	9,095
Foreign currency and other non-cash adjustments	11,496	28,539
Change in assets and liabilities, net of acquisitions:		
Accounts receivable, net	89,649	59,396
Inventories, net	(69,863)	(117,848)
Prepaid expenses and other	2,904	(22,781)
Other assets, net	(9,095)	(2,330)
Accounts payable	(89,487)	(131,208)
Accrued liabilities and income taxes payable	(17,374)	2,698
Retirement obligations and other	844	14,432
Net deferred taxes	(9,984)	9,117
Net cash flows used by operating activities	<u>(7,996)</u>	<u>(93,201)</u>
Cash flows – Investing activities:		
Capital expenditures	(20,212)	(83,967)
Payments for acquisitions, net of cash acquired	-	(341,545)
Proceeds from disposal of assets	101	1,649
Net cash flows used by investing activities	<u>(20,111)</u>	<u>(423,863)</u>
Cash flows – Financing activities:		
(Tax deficiencies) excess tax benefits from stock-based payment arrangements	(45)	5,800
Payments on long-term debt	(15,000)	(10,000)
Proceeds from issuance of senior notes	-	523,418
Payments of deferred loan costs	-	(1,005)
Proceeds under other financing arrangements	14,009	7,190
Payments under other financing arrangements	(11,017)	(5,207)
Repurchases of common shares	-	(79,899)
Payments of dividends	(23,415)	(21,686)
Other	(142)	264
Net cash flows (used) provided by financing activities	<u>(35,610)</u>	<u>418,875</u>
Effect of exchange rate changes on cash	7,591	(18,385)
Net change in cash and cash equivalents	<u>(56,126)</u>	<u>(116,574)</u>
Cash and cash equivalents at beginning of period	366,444	450,350
Cash and cash equivalents at end of period	<u>\$ 310,318</u>	<u>\$ 333,776</u>

SEGMENT INFORMATION

ENGINEERED PRODUCT DIVISION

Three Months Ended March 31,

(Amounts in millions, except percentages)

	2016	2015
Bookings	\$ 424.5	\$ 495.4
Sales	473.8	484.2
Gross profit	158.0	165.6
Gross profit margin	33.3%	34.2%
Operating income	58.4	68.8
Operating margin	12.3%	14.2%

INDUSTRIAL PRODUCT DIVISION

(Amounts in millions, except percentages)

	Three Months Ended March 31,	
	2016	2015
Bookings	\$ 207.7	\$ 247.7
Sales	197.5	223.4
Gross profit	50.2	42.9
Gross profit margin	25.4%	19.2%
Operating income (loss)	4.0	(13.3)
Operating margin	2.0%	(6.0%)

FLOW CONTROL DIVISION

(Amounts in millions, except percentages)

	Three Months Ended March 31,	
	2016	2015
Bookings	\$ 310.1	\$ 323.0
Sales	299.0	327.2
Gross profit	99.0	118.9
Gross profit margin	33.1%	36.3%
Operating income	38.9	54.7
Operating margin	13.0%	16.7%

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