



News Release

Flowserve Corporation Reports Second Quarter 2016 Results

07/28/16

DALLAS--(BUSINESS WIRE)--Jul. 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 second quarter ended June 30, 2016.

Second Quarter 2016 Highlights^[1]:

- Reported Earnings Per Share of \$0.48 includes \$0.09 per share of adjusted items, as detailed herein, and approximately \$0.01 per share of negative currency translation
 - Adjusted Earnings Per Share (EPS)^[2] was \$0.57, excluding the adjusted items but including the negative currency translation
- Sales were \$1.03 billion, down 11.7% or 9.7% on a constant currency basis, and up 6.7% sequentially on a constant currency basis
 - Original equipment sales were \$574 million, down 13.5% on a constant currency basis
 - Aftermarket sales were \$456 million, down 4.8% on a constant currency basis
- Total Bookings were \$975 million, down 10.1% on a constant currency basis, and up 4.0% sequentially on a constant currency basis

- Aftermarket bookings were \$480 million, up 2.3%, and 5.6% sequentially, on a constant currency basis
- Adjusted gross margin decreased 130 basis points to 32.7%
- Achieved approximately \$27 million of realignment savings in the quarter, with progress to date on track to deliver expected incremental savings of approximately \$100 million in 2016
- Backlog at June 30, 2016 was \$2.10 billion, down 3.2% versus year-end 2015

“We delivered solid results in the 2016 second quarter which were generally in-line with our expectations for the period,” said Mark Blinn, Flowserve’s president and chief executive officer. “Our aftermarket business remained resilient during the quarter, evidenced by modest constant currency bookings growth. For the larger project original equipment opportunities, however, we expect that our customers will remain cautious, and that capital investment decisions will remain deliberate and the process iterative until our customers’ confidence improves. In spite of headwinds, we realized traction from our commercial strategies within in all areas, notably the IPD segment, driving constant currency bookings growth of 3.4%.

“We continue to make significant progress on our transformational realignment program. Since the commencement of our program, we have initiated actions on two-thirds of the manufacturing facilities expected to be closed, repurposed or sold and we remain on pace to deliver expected incremental savings of approximately \$100 million for this year. We also continue to execute on our targeted growth strategies, which together with our efforts to optimize the manufacturing platform and reduce our cost structure, will better position Flowserve for profitable growth and increased shareholder value creation.”

“Although our served markets currently remain challenged and volatile, Flowserve is committed to remaining disciplined in its project pursuit and taking the actions necessary to better position the Company for the future,” Blinn concluded.

Second Quarter 2016

For the second quarter of 2016, Flowserve delivered Adjusted EPS of \$0.57 on revenues of \$1.03 billion. Adjusted operating margins were 11.7%, down 300 basis points year-over-year and up 230

basis points sequentially. Second quarter Adjusted EPS excludes the impact of realignment expenses of \$0.11, \$0.01 of SIHI purchase price accounting and integration costs and \$0.03 of below-the-line foreign currency income, but includes \$0.01 of negative currency translation. On a reported basis, earnings for the second quarter were \$0.48 per share, compared to \$0.56 per share in the 2015 second quarter.

Commenting on second quarter 2016 performance, Karyn Ovelmen, Flowserve’s executive vice president and chief financial officer, said, “Flowserve continues to actively focus on our disciplined cost management and realignment actions to reduce the impact of volume declines and price competitiveness in this end-market environment. Our adjusted gross margin performance of nearly 33% reflects continued bidding discipline, a mix shift towards aftermarket and early realignment savings which partially mitigate current market headwinds. Importantly, the long-term outlook for our served end-markets remains promising, as we continue delivering on our realignment initiatives and growth strategies to better serve our customers and deliver value for our shareholders.”

Realignment Program

In the 2016 second quarter, Flowserve realized cost savings of approximately \$27 million through its realignment program, and continues to expect full year 2016 incremental savings of approximately \$100 million. The Company expensed \$20 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. This program is expected to repurpose, close or sell a number of manufacturing facilities and reduce total headcount 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 second quarter and year-to-date include:

Second Quarter and Year-to-Date 2016 - Segment Results

(dollars in millions, comparison vs. 2015 second quarter and full year, unaudited)

| EPD | | IPD | | FCD | |
|---------|-----|---------|-----|---------|-----|
| 2nd Qtr | YTD | 2nd Qtr | YTD | 2nd Qtr | YTD |

| | | | | | | |
|------------------------------------|----------|------------|----------|----------|----------|----------|
| Bookings | \$ 465.5 | \$ 889.9 | \$ 212.3 | \$ 420.0 | \$ 312.9 | \$ 622.6 |
| - vs. prior year | -19.1% | -16.9% | 3.4% | -7.2% | -12.0% | -8.2% |
| - on constant currency | -15.0% | -12.5% | 3.4% | -5.9% | -11.0% | -6.1% |
| Sales | \$ 511.8 | \$ 985.6 | \$ 215.0 | \$ 412.5 | \$ 317.2 | \$ 616.2 |
| - vs. prior year | -10.3% | -6.6% | -17.6% | -14.8% | -11.0% | -9.8% |
| - on constant currency | -6.9% | -1.6% | -16.8% | -13.2% | -10.6% | -8.5% |
| Gross Profit | \$ 164.9 | \$ 323.0 | \$ 50.6 | \$ 100.8 | \$ 108.3 | \$ 207.3 |
| - vs. prior year | -13.2% | -9.1% | -13.9% | -0.9% | -12.4% | -14.6% |
| Gross Margin (% of sales) | 32.2% | 32.8% | 23.5% | 24.4% | 34.1% | 33.6% |
| - vs. prior year (in basis points) | -110 | -90 | 100 | 340 | -60 | -190 |
| Operating Income | \$ 65.3 | \$ 123.6 | \$ 5.5 | \$ 9.5 | \$ 48.5 | \$ 87.3 |
| - vs. prior year | -24.2% | -20.3% | -22.5% | NM | -11.0% | -20.1% |
| - on constant currency | -21.8% | -16.4% | -22.5% | NM | -10.3% | -18.8% |
| Operating Margin (% of sales) | 12.8% | 12.5% | 2.6% | 2.3% | 15.3% | 14.2% |
| - vs. prior year (in basis points) | -230 | -220 | -10 | 360 | - | -180 |
| Adjusted Operating Income * | \$ 77.3 | \$ 139.4 | \$ 12.3 | \$ 21.5 | \$ 50.8 | \$ 95.2 |
| - vs. prior year | -19.6% | -15.9% | -55.3% | -56.2% | -24.0% | -21.6% |
| - on constant currency | -17.5% | -12.3% | -55.3% | -54.2% | -23.4% | -20.5% |
| Adj. Oper. Margin (% of sales)* | 15.1% | 14.1% | 5.7% | 5.2% | 16.0% | 15.4% |
| - vs. prior year (in basis points) | -180 | -160 | -480 | -490 | -270 | -240 |
| Backlog | | \$ 1,074.8 | | \$ 433.9 | | \$ 627.7 |

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

Full Year 2016 Guidance

Flowserve tightened its 2016 Adjusted^[3] EPS target range of \$2.40 to \$2.60 per share, while reaffirming expected revenues declining 7 to 14 percent year-over-year, including a forecasted 2 percent currency headwind. The Company expects its full year 2016 Adjusted EPS to be weighted toward the second half of the year, reflecting greater than normal seasonality and the timing of realignment savings and backlog shipments.

Second Quarter 2016 Results Conference Call

Flowserve will host its conference call with the financial community on Friday, July 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] Comparisons versus prior year quarter, unless otherwise noted

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

[3] Adjusted 2016 EPS will include SIHI's operational results and will exclude the Company's realignment expenses, SIHI purchase price accounting/integration costs, the potential impact from certain other discrete items 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

| (Amounts in thousands, except par value) | 2016 | 2015 |
|---|---------------------|---------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 266,013 | \$ 366,444 |
| Accounts receivable, net of allowance for doubtful accounts of \$46,768 and \$43,936, respectively | 945,966 | 988,391 |
| Inventories, net | 1,057,967 | 995,565 |
| Prepaid expenses and other | 153,416 | 125,410 |
| Total current assets | 2,423,362 | 2,475,810 |
| Property, plant and equipment, net of accumulated depreciation of \$881,655 and \$855,214, respectively | 755,105 | 758,427 |
| Goodwill | 1,227,218 | 1,223,986 |
| Deferred taxes | 71,439 | 69,327 |
| Other intangible assets, net | 222,412 | 228,777 |
| Other assets, net | 232,136 | 224,330 |
| Total assets | \$ 4,931,672 | \$ 4,980,657 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 417,218 | \$ 491,378 |
| Accrued liabilities | 750,728 | 796,764 |
| Debt due within one year | 70,656 | 60,434 |
| Total current liabilities | 1,238,602 | 1,348,576 |
| Long-term debt due after one year | 1,543,557 | 1,560,562 |
| Retirement obligations and other liabilities | 387,226 | 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 | 487,775 | 494,961 |
| Retained earnings | 3,637,837 | 3,587,120 |
| Treasury shares, at cost – 47,065 and 47,703 shares, respectively | (2,082,308) | (2,106,785) |
| Deferred compensation obligation | 8,231 | 10,233 |
| Accumulated other comprehensive loss | (528,550) | (540,043) |
| Total Flowserve Corporation shareholders' equity | 1,743,976 | 1,666,477 |
| Noncontrolling interests | 18,311 | 17,256 |
| Total equity | 1,762,287 | 1,683,733 |
| Total liabilities and equity | \$ 4,931,672 | \$ 4,980,657 |

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | Three Months Ended June 30, | |
|---|--------------------------------|------------------|
| (Amounts in thousands, except per share data) | 2016 | 2015 |
| Sales | \$ 1,026,232 | \$ 1,162,247 |
| Cost of sales | (701,508) | (793,155) |
| Gross profit | 324,724 | 369,092 |
| Selling, general and administrative expense | (228,529) | (243,594) |
| Net earnings from affiliates | 1,809 | 2,079 |
| Operating income | 98,004 | 127,577 |
| Interest expense | (15,274) | (15,392) |
| Interest income | 645 | 249 |
| Other income (expense), net | 4,735 | (4,882) |
| Earnings before income taxes | 88,110 | 107,552 |
| Provision for income taxes | (25,122) | (30,920) |
| Net earnings, including noncontrolling interests | 62,988 | 76,632 |
| Less: Net loss (earnings) attributable to noncontrolling interests | 9 | (1,624) |
| Net earnings attributable to Flowserve Corporation | <u>\$ 62,997</u> | <u>\$ 75,008</u> |
| Net earnings per share attributable to Flowserve Corporation common shareholders: | | |
| Basic | \$ 0.48 | \$ 0.56 |
| Diluted | 0.48 | 0.56 |
| Cash dividends declared per share | \$ 0.19 | \$ 0.18 |

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | Six Months Ended June 30, | |
|---|------------------------------|--------------|
| (Amounts in thousands, except per share data) | 2016 | 2015 |
| Sales | \$ 1,973,480 | \$ 2,176,867 |
| Cost of sales | (1,340,755) | (1,476,045) |
| Gross profit | 632,725 | 700,822 |
| Selling, general and administrative expense | (465,439) | (483,521) |
| Net earnings from affiliates | 5,128 | 3,652 |
| Operating income | 172,414 | 220,953 |
| Interest expense | (29,842) | (31,429) |
| Interest income | 1,318 | 1,006 |

| | | |
|---|-------------------|-------------------|
| Other income (expense), net | 193 | (24,828) |
| Earnings before income taxes | 144,083 | 165,702 |
| Provision for income taxes | (42,812) | (59,426) |
| Net earnings, including noncontrolling interests | 101,271 | 106,276 |
| Less: Net earnings attributable to noncontrolling interests | (415) | (3,602) |
| Net earnings attributable to Flowserve Corporation | <u>\$ 100,856</u> | <u>\$ 102,674</u> |

Net earnings per share attributable to Flowserve Corporation common shareholders:

| | | |
|---------|---------|---------|
| Basic | \$ 0.77 | \$ 0.76 |
| Diluted | 0.77 | 0.76 |

| | | |
|-----------------------------------|---------|---------|
| Cash dividends declared per share | \$ 0.38 | \$ 0.36 |
|-----------------------------------|---------|---------|

RECONCILIATION OF NON-GAAP MEASURES
(Unaudited)

Three Months Ended June 30, 2016

| (Amounts in thousands, except per share data) | <u>As Reported</u> | <u>Realignment</u> | <u>Other Items</u> | <u>As Adjusted</u> |
|---|--------------------|--------------------|--------------------|--------------------|
| | <u>(a)</u> | <u>(1)</u> | | |
| Sales | \$ 1,026,232 | \$ - | \$ - | \$1,026,232 |
| Gross profit (loss) | 324,724 | (11,196) | - | 335,920 |
| <i>Gross margin (loss)</i> | <i>31.6%</i> | <i>-</i> | <i>-</i> | <i>32.7%</i> |
| Selling, general and administrative expense | (228,529) | (8,942) | (2,093) (3) | (217,494) |
| Operating income (loss) | 98,004 | (20,138) | (2,093) | 120,235 |
| <i>Operating income (loss) as a percentage of sales</i> | <i>9.5%</i> | <i>-</i> | <i>-</i> | <i>11.7%</i> |
| Interest and other (expense) income, net | (9,894) | - | 5,709 (4) | (15,603) |
| Earnings (loss) before income taxes | 88,110 | (20,138) | 3,616 | 104,632 |
| Provision for income taxes | (25,122) | 6,142 (2) | (1,103) (5) | (30,161) |
| <i>Tax Rate</i> | <i>28.5%</i> | <i>30.5%</i> | <i>30.5%</i> | <i>28.8%</i> |

| | | | | |
|--|------------------|--------------------|-----------------|------------------|
| Net earnings (loss) attributable to Flowserve Corporation | \$ 62,997 | \$ (13,996) | \$ 2,513 | \$ 74,480 |
|--|------------------|--------------------|-----------------|------------------|

Net earnings per share attributable to Flowserve Corporation common shareholders:

| | | | | |
|---------|---------|-----------|---------|---------|
| Basic | \$ 0.48 | \$ (0.11) | \$ 0.02 | \$ 0.57 |
| Diluted | \$ 0.48 | \$ (0.11) | \$ 0.02 | \$ 0.57 |

| | | | | |
|---|---------|---------|---------|---------|
| Basic number of shares used for calculation | 130,454 | 130,454 | 130,454 | 130,454 |
| Diluted number of shares used for calculation | 130,910 | 130,910 | 130,910 | 130,910 |

(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) | Six Months Ended June 30, | |
|---|---------------------------|------------|
| | 2016 | 2015 |
| Cash flows – Operating activities: | | |
| Net earnings, including noncontrolling interests | \$ 101,271 | \$ 106,276 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation | 50,071 | 49,270 |
| Amortization of intangible and other assets | 8,341 | 17,833 |
| Loss on divestiture of business | 7,664 | - |
| Excess tax benefits from stock-based payment arrangements | (1,843) | (5,858) |
| Stock-based compensation | 23,965 | 17,396 |
| Foreign currency and other non-cash adjustments | 5,622 | 49,794 |
| Change in assets and liabilities, net of acquisitions: | | |
| Accounts receivable, net | 41,348 | 45,376 |

| | | |
|---|-------------------|-------------------|
| Inventories, net | (51,864) | (113,005) |
| Prepaid expenses and other | (27,057) | (21,015) |
| Other assets, net | (7,308) | (22,435) |
| Accounts payable | (76,421) | (124,001) |
| Accrued liabilities and income taxes payable | (77,210) | (5,473) |
| Retirement obligations and other | 3,324 | 7,003 |
| Net deferred taxes | 3,377 | 16,903 |
| Net cash flows provided by operating activities | <u>3,280</u> | <u>18,064</u> |
| Cash flows – Investing activities: | | |
| Capital expenditures | (36,912) | (113,794) |
| Payments for acquisition, net of cash acquired | - | (341,545) |
| Proceeds from disposal of assets | 1,427 | 1,872 |
| Payment for divestiture of business | (5,064) | - |
| Net cash flows used by investing activities | <u>(40,549)</u> | <u>(453,467)</u> |
| Cash flows – Financing activities: | | |
| Excess tax benefits from stock-based payment arrangements | 1,843 | 5,858 |
| Payments on long-term debt | (30,000) | (20,000) |
| Proceeds from issuance of senior notes | - | 526,332 |
| Payments of deferred loan costs | - | (5,108) |
| Proceeds under other financing arrangements | 19,494 | 2,902 |
| Payments under other financing arrangements | (11,441) | (7,631) |
| Repurchases of common shares | - | (139,644) |
| Payments of dividends | (48,181) | (45,928) |
| Other | (142) | 160 |
| Net cash flows (used) provided by financing activities | <u>(68,427)</u> | <u>316,941</u> |
| Effect of exchange rate changes on cash | 5,265 | (16,584) |
| Net change in cash and cash equivalents | <u>(100,431)</u> | <u>(135,046)</u> |
| Cash and cash equivalents at beginning of period | 366,444 | 450,350 |
| Cash and cash equivalents at end of period | <u>\$ 266,013</u> | <u>\$ 315,304</u> |

SEGMENT INFORMATION

ENGINEERED PRODUCT DIVISION

(Amounts in millions, except percentages)

| | Three Months Ended June 30, | |
|---------------------|-----------------------------|----------|
| | 2016 | 2015 |
| Bookings | \$ 465.5 | \$ 575.3 |
| Sales | 511.8 | 570.8 |
| Gross profit | 164.9 | 189.9 |
| Gross profit margin | 32.2% | 33.3% |
| Operating income | 65.3 | 86.2 |
| Operating margin | 12.8% | 15.1% |

INDUSTRIAL PRODUCT DIVISION
(Amounts in millions, except percentages)

| | Three Months Ended June 30, | |
|---------------------|-----------------------------|----------|
| | 2016 | 2015 |
| Bookings | \$ 212.3 | \$ 205.3 |
| Sales | 215.0 | 260.8 |
| Gross profit | 50.6 | 58.8 |
| Gross profit margin | 23.5% | 22.5% |
| Operating income | 5.5 | 7.1 |
| Operating margin | 2.6% | 2.7% |

FLOW CONTROL DIVISION
(Amounts in millions, except percentages)

| | Three Months Ended June 30, | |
|---------------------|-----------------------------|----------|
| | 2016 | 2015 |
| Bookings | \$ 312.9 | \$ 355.5 |
| Sales | 317.2 | 356.4 |
| Gross profit | 108.3 | 123.7 |
| Gross profit margin | 34.1% | 34.7% |
| Operating income | 48.5 | 54.5 |
| Operating margin | 15.3% | 15.3% |

SEGMENT INFORMATION

ENGINEERED PRODUCT DIVISION
(Amounts in millions, except percentages)

| | Six Months Ended June 30, | |
|---------------------|---------------------------|------------|
| | 2016 | 2015 |
| Bookings | \$ 889.9 | \$ 1,070.6 |
| Sales | 985.6 | 1,054.9 |
| Gross profit | 323.0 | 355.5 |
| Gross profit margin | 32.8% | 33.7% |
| Operating income | 123.6 | 155.1 |
| Operating margin | 12.5% | 14.7% |

INDUSTRIAL PRODUCT DIVISION
(Amounts in millions, except percentages)

| | Six Months Ended June 30, | |
|-------------------------|---------------------------|----------|
| | 2016 | 2015 |
| Bookings | \$ 420.0 | \$ 452.8 |
| Sales | 412.5 | 484.2 |
| Gross profit | 100.8 | 101.7 |
| Gross profit margin | 24.4% | 21.0% |
| Operating income (loss) | 9.5 | (6.3) |
| Operating margin | 2.3% | (1.3%) |

FLOW CONTROL DIVISION
(Amounts in millions, except percentages)

| | Six Months Ended June 30, | |
|----------|---------------------------|----------|
| | 2016 | 2015 |
| Bookings | \$ 622.6 | \$ 678.0 |

| | | |
|---------------------|-------|-------|
| Sales | 616.2 | 683.5 |
| Gross profit | 207.3 | 242.7 |
| Gross profit margin | 33.6% | 35.5% |
| Operating income | 87.3 | 109.2 |
| Operating margin | 14.2% | 16.0% |

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Flowserve Corporation

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