



## News Release

### Flowserve Corporation Reports Third Quarter 2016 Results

10/27/16

DALLAS--(BUSINESS WIRE)--Oct. 27, 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 third quarter ended September 30, 2016.

#### **Third Quarter 2016 Highlights**<sup>[1]</sup>:

- Reported Loss Per Share of \$0.16 includes \$0.68 per share of adjusted items, as detailed below, and approximately \$0.02 per share of negative currency translation
  - Adjusted Earnings Per Share (EPS)<sup>[2]</sup> was \$0.52, excluding the adjusted items but including the negative currency translation
  - Adjusted items includes \$0.47 per share to reserve for certain Latin American non-cash exposures and realignment expenses of \$0.21
- Sales were \$943 million, down 14.0% or 12.1% on a constant currency basis
  - Original equipment sales were \$531 million, down 14.5% on a constant currency basis
  - Aftermarket sales were \$412 million, down 8.8% on a constant currency basis

- Total Bookings were \$960 million, down 7.3% on a constant currency basis, and down 1.0% sequentially on a constant currency basis
  - Aftermarket bookings were \$452 million, down 2.1% on a constant currency basis as compared to the 2015 third quarter. Year-to-date aftermarket bookings through September 30, 2016 were up 0.3% on a constant currency basis
- Achieved approximately \$37 million of realignment savings in the quarter, and remain on track to deliver expected incremental savings of approximately \$100 million in 2016
- Backlog at September 30, 2016 was \$2.14 billion, down 1.6% versus year-end 2015 and up 1.7% sequentially, including third quarter book-to-bill of 1.02. Aftermarket backlog exceeded 30% of total backlog for the first time

“Our third quarter results were largely impacted by non-cash reserves recorded in our Latin American operations, as well as lower than expected short-cycle industrial and aftermarket revenues, particularly in September,” said Mark Blinn, Flowserve’s president and chief executive officer. “Though our energy and industrial customers remain deliberate in their investment decisions, reflected primarily in original equipment orders and continued project acceptance delays, we were pleased to achieve a book-to-bill greater than one for the first time since early 2015. As expected, core aftermarket activity demonstrated booking resiliency; however, ongoing rolling maintenance deferrals continued as our customers remain cautious in the current challenging end-market environment.

“Given the current market dynamics, we continue to remain focused on what we can control, including disciplined cost management, increasing our speed to market through e-commerce and optimizing efficiency across the organization. We are successfully executing on our realignment program and made solid progress towards the structural transformation of our business platform this quarter. As a result of these efforts, we remain on track to achieve our goal of approximately \$100 million in incremental savings for the full year 2016. Flowserve has successfully navigated prior cycles, and we are leveraging that experience as we continue to focus on driving increased shareholder value over the long term, including disciplined growth investments and R&D initiatives,” Blinn concluded.

### **Third Quarter 2016**

For the third quarter of 2016, Flowserve delivered Adjusted EPS of \$0.52 on revenues of \$943 million. Reported gross and operating margins were 28.1% and -0.3%. Adjusted gross and operating margins of 32.4% and 11.7% continued to be impacted by lower volumes and under-absorption challenges, particularly in our Engineered and Industrial Product Divisions. Third quarter Adjusted EPS excludes the impact of non-cash charges to reserve for certain Latin American accounts receivables and net inventory exposures totaling \$0.47, realignment expenses of \$0.21, \$0.01 of SIHI purchase price accounting and integration costs and a \$0.01 gain from below-the-line FX, but includes \$0.02 of negative currency translation. On a reported basis, loss per share for the third quarter was \$0.16 per share.

Commenting on third quarter 2016 performance, Karyn Ovelmen, Flowserve's executive vice president and chief financial officer, said, "As a result of the continued deterioration of political and economic conditions in certain Latin American markets during the third quarter, Flowserve recorded non-cash charges totaling \$79.1 million to fully reserve for potentially uncollectable undisputed accounts receivable and inventory exposures. While our markets remain challenged, we are pleased with the stability of our backlog thus far in 2016, including a greater mix of higher margin aftermarket work as we continue to benefit from our continued focus on bidding discipline to maintain backlog quality."

### **Realignment Program & Full Year 2016 Outlook**

In the 2016 third quarter, Flowserve continued its progress on the transformational realignment program to repurpose, close or sell a number of manufacturing facilities and reduce total headcount approximately 15-20% by the end of 2017. Flowserve realized cost savings of approximately \$37 million in the third quarter and continues to expect full year 2016 incremental savings of approximately \$100 million. The Company expensed \$37 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.

Flowserve updated its 2016 Adjusted<sup>[3]</sup> EPS target range to \$2.05 to \$2.25 per share, on expected revenue declines of 11 to 14 percent year-over-year, including a forecasted 2 percent currency headwind. Updated guidance reflects Flowserve's 2016 performance to date, expectations for the continuation of global macro uncertainty and challenging visibility into our end-markets, partially offset by our expected realignment savings as well as a reduced variable incentive compensation.

### **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 and year-to-date include:

*Third Quarter and Year-to-Date 2016 - Segment Results*

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

	EPD		IPD		FCD	
	3rd Qtr	YTD	3rd Qtr	YTD	3rd Qtr	YTD
Bookings	\$ 497.5	\$ 1,387.5	\$ 189.6	\$ 609.5	\$ 291.9	\$ 913.8
- vs. prior year	-7.4%	-13.7%	-19.8%	-11.7%	-6.2%	-7.6%
- on constant currency	-4.6%	-9.8%	-19.3%	-10.6%	-4.9%	-5.8%
Sales	\$ 455.8	\$ 1,441.5	\$ 203.3	\$ 615.8	\$ 299.3	\$ 915.5
- vs. prior year	-11.4%	-8.1%	-15.9%	-15.2%	-18.6%	-12.9%
- on constant currency	-8.5%	-3.9%	-14.8%	-13.7%	-17.9%	-11.8%
Gross Profit	\$ 126.9	\$ 449.8	\$ 32.1	\$ 132.8	\$ 107.3	\$ 314.7
- vs. prior year	-29.7%	-16.1%	-53.5%	-22.2%	-21.4%	-17.0%
Gross Margin (% of sales)	27.8%	31.2%	15.8%	21.6%	35.9%	34.4%
- vs. prior year (in basis points)	-730	-290	-1280	190	-120	-170
Operating (Loss) Income	\$ (25.2)	\$ 98.5	\$ (15.7)	\$ (6.2)	\$ 52.8	\$ 140.1
- vs. prior year	-132.4%	-57.7%	-162.8%	-133.2%	-31.5%	-24.8%
- on constant currency	-127.4%	-53.4%	-161.6%	-125.7%	-31.3%	-23.9%
Operating Margin (% of sales)	-5.5%	6.8%	-7.7%	-1.0%	17.6%	15.3%
- vs. prior year (in basis points)	-2060	-800	-1800	-360	-340	-240
Adjusted Operating Income *	\$ 60.8	\$ 200.3	\$ 7.3	\$ 28.9	\$ 55.7	\$ 150.9
- vs. prior year	-23.4%	-18.3%	-76.5%	-64.1%	-27.8%	-24.0%
- on constant currency	-18.5%	-14.2%	-75.6%	-62.4%	-27.5%	-23.2%
Adj. Oper. Margin (% of sales)*	13.3%	13.9%	3.6%	4.7%	18.6%	16.5%
- vs. prior year (in basis points)	-210	-170	-930	-640	-240	-240
Backlog		\$ 1,114.7		\$ 434.1		\$ 620.7

\*Adjusted Operating Income and Adjusted Operating Margin exclude realignment charges, purchase price accounting charges, acquisition related costs and other specific discrete items

## **Third Quarter 2016 Results Conference Call**

Flowserve will host its conference call with the financial community on Friday, October 28th 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](http://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](http://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.

The Company reports its financial results in accordance with U.S. generally accepted accounting principles (GAAP). However, management believes that non-GAAP financial measures which exclude certain non-recurring items present additional useful comparisons between current results

and results in prior operating periods, providing investors with a clearer view of the underlying trends of the business. Management also uses these non-GAAP financial measures in making financial, operating, planning and compensation decisions and in evaluating the Company's performance. Throughout our materials we refer to non-GAAP measures as "Adjusted." Non-GAAP financial measures, which may be inconsistent with similarly captioned measures presented by other companies, should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with GAAP.

**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

(Amounts in thousands, except par value)	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 260,870	\$ 366,444
Accounts receivable, net of allowance for doubtful accounts of \$49,665 and \$43,936, respectively	896,755	988,391
Inventories, net	1,038,944	995,565
Prepaid expenses and other	186,311	125,410
Total current assets	<u>2,382,880</u>	<u>2,475,810</u>
Property, plant and equipment, net of accumulated depreciation of \$906,726 and \$855,214, respectively	750,128	758,427
Goodwill	1,229,817	1,223,986
Deferred taxes	76,095	69,327
Other intangible assets, net	219,280	228,777
Other assets, net	195,402	224,330
Total assets	<u>\$ 4,853,602</u>	<u>\$ 4,980,657</u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 394,600	\$ 491,378
Accrued liabilities	731,928	796,764
Debt due within one year	75,211	60,434
Total current liabilities	<u>1,201,739</u>	<u>1,348,576</u>
Long-term debt due after one year	1,535,678	1,560,562
Retirement obligations and other liabilities	402,645	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	491,639	494,961
Retained earnings	3,591,867	3,587,120
Treasury shares, at cost – 46,977 and 47,703 shares, respectively	(2,078,439)	(2,106,785)
Deferred compensation obligation	8,369	10,233
Accumulated other comprehensive loss	(540,006)	(540,043)
Total Flowserve Corporation shareholders' equity	<u>1,694,421</u>	<u>1,666,477</u>
Noncontrolling interests	19,119	17,256
Total equity	<u>1,713,540</u>	<u>1,683,733</u>
Total liabilities and equity	<u>\$ 4,853,602</u>	<u>\$ 4,980,657</u>

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**

(Amounts in thousands, except per share data)	Three Months Ended	
	September 30,	
	2016	2015
Sales	\$ 943,334	\$ 1,096,476
Cost of sales	(677,891)	(707,726)
Gross profit	<u>265,443</u>	<u>388,750</u>
Selling, general and administrative expense	(271,643)	(223,516)
Net earnings from affiliates	3,394	2,615
Operating (loss) income	<u>(2,806)</u>	<u>167,849</u>
Interest expense	(15,141)	(16,283)
Interest income	924	499
Other income (expense), net	1,899	(5,430)
(Loss) earnings before income taxes	<u>(15,124)</u>	<u>146,635</u>
Provision for income taxes	(4,996)	(52,099)
Net (loss) earnings, including noncontrolling interests	<u>(20,120)</u>	<u>94,536</u>
Less: Net earnings attributable to noncontrolling interests	(808)	(913)
Net (loss) earnings attributable to Flowserve Corporation	<u>\$ (20,928)</u>	<u>\$ 93,623</u>
Net (loss) earnings per share attributable to Flowserve Corporation common shareholders:		
Basic	\$ (0.16)	\$ 0.71
Diluted	(0.16)	0.70
Cash dividends declared per share	\$ 0.19	\$ 0.18

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**(Unaudited)**

	Nine Months Ended September 30,	
(Amounts in thousands, except per share data)	2016	2015
Sales	\$ 2,916,814	\$ 3,273,342
Cost of sales	(2,018,646)	(2,183,770)
Gross profit	898,168	1,089,572
Selling, general and administrative expense	(737,083)	(707,037)
Net earnings from affiliates	8,522	6,268
Operating income	169,607	388,803
Interest expense	(44,982)	(47,712)
Interest income	2,243	1,504
Other income (expense), net	2,091	(30,258)
Earnings before income taxes	128,959	312,337
Provision for income taxes	(47,809)	(111,525)
Net earnings, including noncontrolling interests	81,150	200,812
Less: Net earnings attributable to noncontrolling interests	(1,222)	(4,515)
Net earnings attributable to Flowserve Corporation	<u>\$ 79,928</u>	<u>\$ 196,297</u>
 Net earnings per share attributable to Flowserve Corporation common shareholders:		
Basic	\$ 0.61	\$ 1.47
Diluted	0.61	1.46
 Cash dividends declared per share	\$ 0.57	\$ 0.54

**RECONCILIATION OF NON-GAAP MEASURES**  
**(Unaudited)**

	Three Months Ended September 30, 2016			
(Amounts in thousands, except per share data)	As Reported (a)	Realignment (1)	Other Items	As Adjusted
Sales	\$ 943,334	\$ -	\$ -	\$ 943,334
Gross profit (loss)	265,443	(24,503)	(15,930) (3)	305,876

<i>Gross margin (loss)</i>	28.1%	-	-	32.4%
Selling, general and administrative expense	(271,643)	(6,983)	(65,822) (4)	(198,838)
Operating (loss) income	(2,806)	(31,486)	(81,752)	110,432
<i>Operating income (loss) as a percentage of sales</i>	-0.3%	-	-	11.7%
Interest and other (expense) income, net	(12,318)	-	1,357 (5)	(13,675)
(Loss) earnings before income taxes	(15,124)	(31,486)	(80,395)	96,757
Provision for income taxes	(4,996)	4,203 (2)	19,129 (6)	(28,328)
<i>Tax Rate</i>	-33.0%	13.3%	23.8%	29.3%
<b>Net (loss) earnings attributable to Flowserve Corporation</b>	<b>\$ (20,928)</b>	<b>\$ (27,283)</b>	<b>\$ (61,266)</b>	<b>\$ 67,621</b>
Net earnings per share attributable to Flowserve Corporation common shareholders:				
Basic	\$ (0.16)	\$ (0.21)	\$ (0.47)	\$ 0.52
Diluted	\$ (0.16)	\$ (0.21)	\$ (0.47)	\$ 0.52
Basic number of shares used for calculation	130,299	130,558	130,558	130,558
Diluted number of shares used for calculation	130,299	131,102	131,102	131,102

(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 offset by \$5.400 million of realignment expense recorded in provision for income taxes

(3) Represents Brazil inventory write-down of \$14.064 million and Venezuela inventory reserve of \$1.866 million

(4) Represents Venezuela accounts receivable reserve of \$63.192 million and SIHI integration costs/purchase price adjustments ("PPA") of \$2.630 million

(5) Represents below-the-line foreign exchange impacts

(6) Includes tax impact of items above

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

(Amounts in thousands)	Nine Months Ended September 30,	
	2016	2015
Cash flows – Operating activities:		
Net earnings, including noncontrolling interests	\$ 81,150	\$ 200,812
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	74,875	73,652
Amortization of intangible and other assets	12,424	25,918
Loss on divestiture of business	7,664	-
Excess tax benefits from stock-based payment arrangements	(2,480)	(6,822)
Stock-based compensation	29,966	26,027
Latin America accounts receivable reserve and inventory write-downs	79,122	-
Foreign currency and other non-cash adjustments	940	54,635
Change in assets and liabilities, net of acquisitions:		
Accounts receivable, net	70,190	66,660
Inventories, net	(47,375)	(119,530)
Prepaid expenses and other	(59,799)	(42,361)
Other assets, net	(19,512)	(17,890)
Accounts payable	(97,838)	(157,930)
Accrued liabilities and income taxes payable	(90,304)	(2,989)
Retirement obligations and other	7,821	(6,402)
Net deferred taxes	11,349	37,261
Net cash flows provided by operating activities	58,193	131,041
Cash flows – Investing activities:		
Capital expenditures	(64,475)	(138,532)
Payments for acquisition, net of cash acquired	-	(353,654)
Proceeds from disposal of assets	632	4,103
Payment for divestiture of business	(5,064)	-
Net cash flows used by investing activities	(68,907)	(488,083)
Cash flows – Financing activities:		
Excess tax benefits from stock-based payment arrangements	2,480	6,822
Payments on long-term debt	(45,000)	(30,000)
Proceeds from issuance of senior notes	-	526,332
Payments of deferred loan costs	-	(5,108)
Proceeds under other financing arrangements	24,701	8,157

Payments under other financing arrangements	(12,060)	(15,524)
Repurchases of common shares	-	(249,682)
Payments of dividends	(72,960)	(70,000)
Other	1,325	192
Net cash flows (used) provided by financing activities	(101,514)	171,189
Effect of exchange rate changes on cash	6,654	(26,655)
Net change in cash and cash equivalents	(105,574)	(212,508)
Cash and cash equivalents at beginning of period	366,444	450,350
Cash and cash equivalents at end of period	<u>\$ 260,870</u>	<u>\$ 237,842</u>

## SEGMENT INFORMATION

### ENGINEERED PRODUCT DIVISION

(Amounts in millions, except percentages)

	Three Months Ended September 30,	
	2016	2015
Bookings	\$ 497.5	\$ 537.5
Sales	455.8	514.5
Gross profit	126.9	180.4
Gross profit margin	27.8%	35.1%
Operating (loss) income	(25.2)	77.7
Operating margin	(5.5%)	15.1%

### INDUSTRIAL PRODUCT DIVISION

(Amounts in millions, except percentages)

	Three Months Ended September 30,	
	2016	2015
Bookings	\$ 189.6	\$ 236.5
Sales	203.3	241.6
Gross profit	32.1	69.0
Gross profit margin	15.8%	28.6%
Operating (loss) income	(15.7)	25.0
Operating margin	(7.7%)	10.3%

### FLOW CONTROL DIVISION

(Amounts in millions, except percentages)

	Three Months Ended September 30,	
	2016	2015
Bookings	\$ 291.9	\$ 311.1
Sales	299.3	367.9
Gross profit	107.3	136.6
Gross profit margin	35.9%	37.1%
Operating income	52.8	77.1
Operating margin	17.6%	21.0%

## SEGMENT INFORMATION

### ENGINEERED PRODUCT DIVISION

(Amounts in millions, except percentages)

	Nine Months Ended September 30,	
	2016	2015
Bookings	\$ 1,387.5	\$ 1,608.0
Sales	1,441.5	1,569.4
Gross profit	449.8	535.9
Gross profit margin	31.2%	34.1%
Operating income	98.5	232.8
Operating margin	6.8%	14.8%

### INDUSTRIAL PRODUCT DIVISION

(Amounts in millions, except percentages)

	Nine Months Ended September 30,	
	2016	2015
Bookings	\$ 609.5	\$ 689.9
Sales	615.8	725.8
Gross profit	132.8	170.7
Gross profit margin	21.6%	23.5%
Operating (loss) income	(6.2)	18.7
Operating margin	(1.0%)	2.6%

### FLOW CONTROL DIVISION

(Amounts in millions, except percentages)

	Nine Months Ended September 30,	
	2016	2015
Bookings	\$ 913.8	\$ 988.6
Sales	915.5	1,051.5
Gross profit	314.7	379.2
Gross profit margin	34.4%	36.1%
Operating income	140.1	186.3
Operating margin	15.3%	17.7%

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Source: Flowserve Corporation

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