



## News Release

### Flowserve Corporation Reports First Quarter 2017 Results

05/01/17

DALLAS--(BUSINESS WIRE)--May 1, 2017-- 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, 2017.

**First Quarter 2017 Highlights** (all comparisons to 2016 first quarter, unless otherwise noted)

- Reported Earnings Per Share (EPS) of \$0.11 includes \$0.14 per share of adjusted items
  - Adjusted EPS<sup>[1]</sup> was \$0.25 excluding the adjusted items
  - Both Reported and Adjusted results include approximately \$10 million of accelerated non-cash incentive recognition and executive transition expenses
- Sales were \$864 million, down 7.8% on a constant currency basis
  - Aftermarket sales were \$408 million, down 3.0% on a constant currency basis
- Total bookings were \$958 million, up 5.3% on a constant currency basis
  - Aftermarket bookings were \$457 million, or 48% of total bookings, up 3.0% on a constant currency basis

- Original equipment booking were \$501 million, up 7.4% on a constant currency basis
- Book-to-bill of 1.11, highest since the second quarter of 2014
- Reported gross and operating margins of 30.6% and 5.4%
  - Adjusted gross and operating margins<sup>[2]</sup> were 31.5% and 7.0%, down 180 basis points and 240 basis points, respectively
- Achieved approximately \$28 million of incremental cost savings from the realignment program during the 2017 first quarter
- Backlog at March 31, 2017 was \$2.0 billion, up 5.6% versus 2016 year-end

“Flowserve’s results were solid, despite the continued challenges in our end markets and the first quarter’s seasonal effect,” said Scott Rowe, Flowserve’s President and Chief Executive Officer. “Bookings in the period grew both sequentially and year-over-year, which supports our expectation that we are at, or near, the bottom of this cycle.”

Rowe added, “In my first 30 days at Flowserve, I am impressed with our people, broad product offering and extensive installed base of pumps, valves and seals. This foundation, combined with our realignment program to improve cost and efficiencies, provides me confidence that Flowserve is well-positioned to drive long-term value for our customers and shareholders.”

### **Realignment Programs**

Flowserve recognized approximately \$28 million of incremental savings and expensed approximately \$11 million in the 2017 first quarter. The multi-year \$400 million realignment program is expected to be largely completed this year, delivering approximately \$70 million of additional savings and including approximately \$155 million of expense. The Company remains on track to achieve total expected program savings of \$230 million in 2018.

### **Full Year 2017 Guidance**

Flowserve reaffirmed its 2017 guidance, including Reported and Adjusted<sup>[3]</sup> EPS target ranges of \$0.72 to \$1.02 and \$1.55 to \$1.85, respectively. Both EPS target ranges are based on an expected 6 to 11 percent decline in revenues year-over-year, including an above-the-line foreign currency headwind<sup>[4]</sup> of approximately 10 cents per share. Adjusted EPS guidance excludes expected realignment expense, as well as the potential impact of below-the-line foreign currency effects and certain other discrete items, such as the recently announced expected sale of our Gestra business. The transaction is expected to close in May 2017 and once complete, is anticipated to have a modest dilutive impact to full year 2017 Adjusted earnings while improving Reported 2017 earnings.

### **First Quarter 2017 Results Conference Call**

Flowserve will host its conference call with the financial community on Tuesday, May 2nd at 11:00 AM Eastern. Scott Rowe, 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] See Reconciliation of Non-GAAP Measures table for detailed reconciliation of reported results to adjusted measures.

[2] Adjusted gross and operating margins are calculated by dividing adjusted gross profit and operating income, respectively, by revenues. Adjusted gross profit and adjusted operating income are derived by excluding the adjusted items. See reconciliation of Non-GAAP Measures table for detailed reconciliation.

[3] Adjusted 2017 EPS will exclude the Company’s realignment expenses, the impact from other specific one-time events and below-the-line foreign currency effects and utilizes year-end 2016 FX rates and approximately 131 million fully diluted shares.

[4] FX headwind is calculated by comparing the difference between the actual average FX rates of 2016 and the year-end 2016 spot rates both as applied to our 2017 expectations, divided by the number of shares expected for 2017.

### **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.

### First Quarter 2017 - Segment Results

(dollars in millions, comparison vs. 2016 first quarter, unaudited)

	EPD	IPD	FCD
Bookings	\$ 460.9	\$ 206.7	\$ 309.8
- vs. prior year	8.6%	-0.5%	-0.1%
- on constant currency	9.8%	0.9%	1.3%
Sales	\$ 422.0	\$ 178.4	\$ 280.4
- vs. prior year	-10.9%	-9.7%	-6.2%
- on constant currency	-9.9%	-8.3%	-5.4%
Gross Profit	\$ 133.8	\$ 34.5	\$ 96.6
- vs. prior year	-15.3%	-31.3%	-2.4%

Gross Margin (% of sales)		31.7%	19.3%	34.5%
- vs. prior year (in basis points)		-160	-610	140
Operating Income / (Loss)	\$	44.6	\$ (14.2)	\$ 40.1
- vs. prior year		-23.6%	NM	3.1%
- on constant currency		-19.0%	NM	3.9%
Operating Margin (% of sales)		10.6%	-8.0%	14.3%
- vs. prior year (in basis points)		-170	-1000	130
Adjusted Operating Income / (Loss) *	\$	45.7	\$ (3.7)	\$ 41.2
- vs. prior year		-26.5%	NM	-7.4%
- on constant currency		-22.2%	NM	-6.7%
Adj. Oper. Margin (% of sales)*		10.8%	-2.1%	14.7%
- vs. prior year (in basis points)		-230	-680	-20
Backlog	\$	1,014.1	\$ 402.4	\$ 615.3

\* Adjusted Operating Income and Adjusted Operating Margin exclude realignment charges, below-the-line FX impacts and other specific discrete items

## CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

	March 31,	December
(Amounts in thousands, except par value)	2017	31, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 325,783	\$ 367,162
Accounts receivable, net of allowance for doubtful accounts of \$52,072 and \$51,920, respectively	844,597	894,749
Inventories, net	957,120	919,251
Prepaid expenses and other	154,633	150,199
Total current assets	2,282,133	2,331,361
Property, plant and equipment, net of accumulated depreciation of \$911,160 and \$882,151, respectively	715,563	723,628
Goodwill	1,211,153	1,205,054
Deferred taxes	84,590	87,178
Other intangible assets, net	216,724	214,527

Other assets, net	186,668	181,014
Total assets	<u>\$ 4,696,831</u>	<u>\$ 4,742,762</u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 354,566	\$ 412,087
Accrued liabilities	654,025	680,689
Debt due within one year	90,632	85,365
Total current liabilities	<u>1,099,223</u>	<u>1,178,141</u>
Long-term debt due after one year	1,477,549	1,485,258
Retirement obligations and other liabilities	418,196	410,168
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	481,443	491,848
Retained earnings	3,624,907	3,632,163
Treasury shares, at cost – 46,575 and 46,980 shares, respectively	(2,063,085)	(2,078,527)
Deferred compensation obligation	6,641	8,507
Accumulated other comprehensive loss	(590,523)	(626,748)
Total Flowserve Corporation shareholders' equity	<u>1,680,374</u>	<u>1,648,234</u>
Noncontrolling interests	21,489	20,961
Total equity	<u>1,701,863</u>	<u>1,669,195</u>
Total liabilities and equity	<u>\$ 4,696,831</u>	<u>\$ 4,742,762</u>

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

	Three Months Ended March	
	31,	
(Amounts in thousands, except per share data)	<u>2017</u>	<u>2016</u>
Sales	\$ 863,626	\$ 947,248
Cost of sales	(599,746)	(639,247)
Gross profit	263,880	308,001
Selling, general and administrative expense	(222,029)	(236,910)
Net earnings from affiliates	5,165	3,319
Operating income	<u>47,016</u>	<u>74,410</u>
Interest expense	(14,696)	(14,568)
Interest income	624	676
Other expense, net	(11,127)	(4,543)
Earnings before income taxes	<u>21,817</u>	<u>55,975</u>

Provision for income taxes	(6,755)	(17,691)
Net earnings, including noncontrolling interests	15,062	38,284
Less: Net earnings attributable to noncontrolling interests	(239)	(425)
Net earnings attributable to Flowserve Corporation	<u>\$ 14,823</u>	<u>\$ 37,859</u>

Net earnings per share attributable to Flowserve Corporation common shareholders:

Basic	\$ 0.11	\$ 0.29
Diluted	0.11	0.29

Cash dividends declared per share	\$ 0.19	\$ 0.19
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### RECONCILIATION OF NON-GAAP MEASURES (Unaudited)

(Amounts in thousands, except per share data)	Three Months Ended March 31, 2017			
	As Reported (a)	Realignment (1)	Other Items	As Adjusted
Sales	\$ 863,626	\$ -	\$ -	\$ 863,626
Gross profit	263,880	(5,037)	(2,728) (3)	271,645
<i>Gross margin</i>	<i>30.6%</i>	-	-	<i>31.5%</i>
Selling, general and administrative expense	(222,029)	(5,474)	(626) (4)	(215,929)
Operating income	47,016	(10,511)	(3,354)	60,881
<i>Operating income as a percentage of sales</i>	<i>5.4%</i>	-	-	<i>7.0%</i>
Interest and other expense, net	(25,199)	-	(10,982) (5)	(14,217)
Earnings before income taxes	21,817	(10,511)	(14,336)	46,664
Provision for income taxes	(6,755)	3,048 (2)	3,366.32 (6)	(13,170)
<i>Tax Rate</i>	<i>31.0%</i>	<i>29.0%</i>	<i>23.5%</i>	<i>28.2%</i>
<b>Net earnings attributable to Flowserve Corporation</b>	<b>\$ 14,823</b>	<b>\$ (7,463)</b>	<b>\$ (10,970)</b>	<b>\$ 33,255</b>

Net earnings per share attributable to Flowserve Corporation common

shareholders:

Basic	\$	0.11	\$	(0.06)	\$	(0.08)	\$	0.25
Diluted	\$	0.11	\$	(0.06)	\$	(0.08)	\$	0.25

Basic number of shares used for calculation	130,562	130,562	130,562	130,562
Diluted number of shares used for calculation	131,275	131,275	131,275	131,275

(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 Brazil inventory write-down
- (4) Represents SIHI integration costs/purchase price adjustments ("PPA")
- (5) Represents below-the-line foreign exchange impacts
- (6) Includes tax impact of items above. There is no tax impact associated with the Brazil inventory write-down.

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

(Amounts in thousands)	Three Months Ended March	
	2017	2016
Cash flows – Operating activities:		
Net earnings, including noncontrolling interests	\$ 15,062	\$ 38,284
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation	24,586	24,505
Amortization of intangible and other assets	4,039	4,123
Stock-based compensation	11,307	15,957
Foreign currency and other non-cash adjustments	594	11,496
Change in assets and liabilities, net of acquisitions:		
Accounts receivable, net	66,343	89,649
Inventories, net	(22,669)	(69,863)
Prepaid expenses and other	(2,436)	2,904
Other assets, net	(5,074)	(9,095)
Accounts payable	(61,918)	(89,487)

Accrued liabilities and income taxes payable	(35,375)	(15,041)
Retirement obligations and other liabilities	2,253	844
Net deferred taxes	7,215	(9,984)
Net cash flows provided (used) by operating activities	<u>3,927</u>	<u>(5,708)</u>
Cash flows – Investing activities:		
Capital expenditures	(15,862)	(20,212)
Proceeds from disposal of assets	367	101
Net cash flows used by investing activities	<u>(15,495)</u>	<u>(20,111)</u>
Cash flows – Financing activities:		
Payments on long-term debt	(15,000)	(15,000)
Proceeds under other financing arrangements	5,715	14,009
Payments under other financing arrangements	(1,314)	(11,017)
Payments related to tax withholding for stock-based compensation	(3,198)	(2,333)
Payments of dividends	(24,785)	(23,415)
Other	(244)	(142)
Net cash flows used by financing activities	<u>(38,826)</u>	<u>(37,898)</u>
Effect of exchange rate changes on cash	9,015	7,591
Net change in cash and cash equivalents	<u>(41,379)</u>	<u>(56,126)</u>
Cash and cash equivalents at beginning of year	367,162	366,444
Cash and cash equivalents at end of year	<u>\$ 325,783</u>	<u>\$ 310,318</u>

## SEGMENT INFORMATION

### (Unaudited)

#### ENGINEERED PRODUCT DIVISION

(Amounts in millions, except percentages)

	Three Months Ended March 31,	
	2017	2016
Bookings	\$ 460.9	\$ 424.5
Sales	422.0	473.8
Gross profit	133.8	158.0
Gross profit margin	31.7%	33.3%
Segment operating income	44.6	58.4
Segment operating income as a percentage of sales	10.6%	12.3%

#### INDUSTRIAL PRODUCT DIVISION

(Amounts in millions, except percentages)

	Three Months Ended March 31,	
	2017	2016
Bookings	\$ 206.7	\$ 207.7
Sales	178.4	197.5
Gross profit	34.5	50.2
Gross profit margin	19.3%	25.4%
Segment operating (loss) income	(14.2)	4.0
Segment operating (loss) income as a percentage of sales	(8.0%)	2.0%

FLOW CONTROL DIVISION (Amounts in millions, except percentages)	Three Months Ended March 31,	
	2017	2016
Bookings	\$ 309.8	\$ 310.1
Sales	280.4	299.0
Gross profit	96.6	99.0
Gross profit margin	34.5%	33.1%
Segment operating income	40.1	38.9
Segment operating income as a percentage of sales	14.3%	13.0%

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