



News Release

Flowserve Corporation Reports First Quarter 2018 Results

05/10/18

DALLAS--(BUSINESS WIRE)--May 10, 2018-- Flowserve Corporation (NYSE: FLS), a leading provider of flow control products and services for the global infrastructure markets, today announced its financial results for the first quarter ended March 31, 2018.

First Quarter 2018 Highlights

- Reported Earnings Per Share (EPS) of \$0.12 and Adjusted EPS^[1] of \$0.27
- Reported EPS includes pre-tax adjusted items of \$25 million, primarily realignment and below-the-line foreign exchange impacts
- Sales were \$920 million, up 6.2%, or essentially flat on a constant currency basis and included approximately 2.5% negative impact related to divested businesses
 - Aftermarket sales were \$455 million, up 11.1%, or 4.5% on a constant currency basis
- Reported gross and operating margins of 29.5% and 4.9%
 - Adjusted gross and operating margins^[2] were 30.3% and 6.8%
- Total bookings were \$929 million, down 3.1%, or 8.1% on a constant currency basis, and included approximately 2.5% negative impact related to divested

businesses

- 2017 first quarter bookings included a significant award of approximately \$80 million
- Aftermarket bookings were \$482 million, or 52% of total bookings, up 5.4%, or essentially flat on a constant currency basis
- Backlog at March 31, 2018 was \$1.8 billion, down 9.7% versus 2017 year-end, and included a reduction of \$237 million related to adoption of new revenue accounting guidance

“Flowserve’s 2018 first quarter adjusted results were largely in-line with our expectations. We delivered strong aftermarket shipments and solid bookings as our core energy markets appear stabilized and positioned for growth,” said Scott Rowe, Flowserve’s president and chief executive officer. “We continued to make headway on our strategy to transform Flowserve’s operating model to streamline common processes, drive operational excellence and better leverage our global platform to accelerate growth and improve efficiency. Initiatives are underway on a number of work streams and we expect to deliver additional progress each quarter.”

Lee Eckert, Flowserve’s senior vice president and chief financial officer, added, “The adoption of new revenue accounting standards on January 1, 2018 impacted our reported and adjusted results relative to prior periods due to the increase in contracts accounted for using the percentage-of-completion method. Major categories affected compared to prior periods include our backlog, revenues, profits and working capital. As an example, approximately \$237 million of our 2017 year-end backlog, or 15 cents of earnings, was recorded into our 2018 beginning retained earnings. As the new accounting standards were mandated and expected, our initial and reaffirmed guidance includes the various effects from implementation. Our first quarter 2018 results were as we forecast and are supportive of our full-year outlook.”

Rowe concluded, “We look forward to building on these solid first quarter results. When combined with anticipated improvement in our end-markets and our expected progress implementing the Flowserve 2.0 strategy, we believe the Company is well positioned to deliver on our 2018 full year expectations and drive significant long-term value for our customers, employees and shareholders.”

Full Year 2018 Guidance^[3]

Flowserve reaffirmed its 2018 guidance, including its Reported and Adjusted EPS target range of \$0.95 to \$1.15 and \$1.50 to \$1.70, respectively. Both EPS target ranges include the expected revenue increase of approximately 3 to 6 percent year-over-year, and are based on our first quarter 2018 results, current foreign currency rates and commodity prices, expected bookings levels and market conditions, minimal impact from adoption of accounting pronouncements, the reset of annual incentive performance goals, a broad-based merit increase, modest above-the-line foreign currency benefits, net interest expense in the range of \$58 to \$60 million and a tax rate of 27 to 28 percent. The quarterly phasing of expected 2018 earnings is anticipated to reflect traditional seasonality, although more pronounced in its second half weighting.

First Quarter 2018 Results Conference Call

Flowserve will host its conference call with the financial community on Friday, May 11th 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 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 2018 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 2018 FX rates and approximately 132 million fully diluted shares.

– FX headwind is calculated by comparing the difference between the actual average FX rates of 2018 and the year-end 2018 spot rates both as applied to our 2018 expectations, divided by the number of shares expected for 2018.

About Flowserve

Flowserve Corp. is one of the world’s leading providers of fluid motion and control products and services. Operating in more than 50 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, statements concerning our future financial performance, future debt and financing levels, investment objectives, implications of litigation and regulatory investigations and other management plans for future operations and performance.

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 North African, Russian and 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, particularly the Euro and British pound and 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 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; risks and potential liabilities associated with cyber security threats; our inability to execute and realize the expected financial benefits of our strategic manufacturing optimization and other cost-saving initiatives; our internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud; the recording of increased deferred tax asset valuation allowances in the future or the impact of tax law changes on such deferred tax assets could affect our operating results; if we are not able to successfully execute and realize the expected financial benefits from our strategic realignment and other cost-saving initiatives, our business could be adversely affected; ineffective internal controls could impact the accuracy and timely reporting of our business and financial results; 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 STATEMENTS OF INCOME
(Unaudited)

(Amounts in thousands, except per share data)

Three Months Ended March	
31,	
2018	2017

Sales	\$ 919,954	\$ 866,318
Cost of sales	(648,521)	(597,332)
Gross profit	271,433	268,986
Selling, general and administrative expense	(229,176)	(221,772)
Net earnings from affiliates	3,168	3,455
Operating income	45,425	50,669
Interest expense	(14,879)	(14,696)
Interest income	1,639	624
Other expense, net	(7,155)	(11,988)
Earnings before income taxes	25,030	24,609
Provision for income taxes	(8,571)	(5,320)
Net earnings, including noncontrolling interests	16,459	19,289
Less: Net earnings attributable to noncontrolling interests	(1,316)	(239)
Net earnings attributable to Flowserve Corporation	\$ 15,143	\$ 19,050

Net earnings per share attributable to Flowserve Corporation
common shareholders:

Basic	\$ 0.12	\$ 0.15
Diluted	0.12	0.15
Cash dividends declared per share	\$ 0.19	\$ 0.19

RECONCILIATION OF NON-GAAP MEASURES (Unaudited)

(Amounts in thousands, except per share data)	Three Months Ended March 31, 2018			
	As Reported (a)	Realignment (1)	Other Items	As Adjusted
Sales	\$ 919,954	\$ -	\$ -	\$ 919,954
Gross profit	271,433	(7,156)	-	278,589
<i>Gross margin</i>	29.5%	-	-	30.3%
Selling, general and administrative expense	(229,176)	(4,318)	(5,467) (3)	(219,391)
Operating income	45,425	(11,474)	(5,467)	62,366
<i>Operating income as a percentage of sales</i>	4.9%	-	-	6.8%
Interest and other expense, net	(20,395)	-	(7,952) (4)	(12,443)

Selling, general and administrative expense	(221,772)	(5,474)	(626) (3)	(215,672)
Gain on sale of business	-	-	-	-
Operating income	50,669	(10,511)	(626)	61,806
<i>Operating income as a percentage of sales</i>	<i>5.8%</i>	-	-	<i>7.1%</i>
Interest and other expense, net	(26,060)	-	(10,982) (4)	(15,078)
Earnings before income taxes	24,609	(10,511)	(11,608)	46,728
Provision for income taxes	(5,320)	3,048 (2)	3,366 (5)	(11,734)
<i>Tax Rate</i>	<i>21.6%</i>	<i>29.0%</i>	<i>29.0%</i>	<i>25.1%</i>

Net earnings attributable to Flowserve Corporation

\$ 19,050 \$ (7,463) \$ (8,242) \$ 34,755

Net earnings per share attributable to Flowserve Corporation common shareholders:

Basic	\$ 0.15	\$ (0.06)	\$ (0.06)	\$ 0.27
Diluted	\$ 0.15	\$ (0.06)	\$ (0.06)	\$ 0.26

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 SIHI integration costs/purchase price adjustments ("PPA")
- (4) Represents below-the-line foreign exchange impacts
- (5) Includes tax impact of items above

SEGMENT INFORMATION

(Unaudited)

ENGINEERED PRODUCT DIVISION

(Amounts in millions, except percentages)

	Three Months Ended March 31,	
	2018	2017
Bookings	\$ 424.3	\$ 460.9

Sales	467.7	424.7
Gross profit	139.8	136.7
Gross profit margin	29.9%	32.2%
Segment operating income	39.4	45.9
Segment operating income as a percentage of sales	8.4%	10.8%

INDUSTRIAL PRODUCT DIVISION

(Amounts in millions, except percentages)

	Three Months Ended March 31,	
	2018	2017
Bookings	\$ 198.5	\$ 206.7
Sales	198.1	178.4
Gross profit	45.9	34.8
Gross profit margin	23.2%	19.5%
Segment operating loss	(2.3)	(13.7)
Segment operating loss as a percentage of sales	(1.2%)	(7.7%)

FLOW CONTROL DIVISION

(Amounts in millions, except percentages)

	Three Months Ended March 31,	
	2018	2017
Bookings	\$ 327.3	\$ 309.8
Sales	277.2	280.4
Gross profit	88.2	98.0
Gross profit margin	31.8%	35.0%
Segment operating income	33.9	41.8
Segment operating income as a percentage of sales	12.2%	14.9%

First Quarter 2018 - Segment Results

(dollars in millions, comparison vs. 2017 first quarter, unaudited)

	EPD	IPD	FCD
Bookings	\$ 424.3	\$ 198.5	\$ 327.3
- vs. prior year	-7.9%	-4.0%	5.6%
- on constant currency	-12.2%	-9.9%	0.6%
Sales	\$ 467.7	\$ 198.1	\$ 277.2
- vs. prior year	10.1%	11.0%	-1.1%
- on constant currency	4.4%	4.4%	-5.8%
Gross Profit	\$ 139.8	\$ 45.9	\$ 88.2
- vs. prior year	2.3%	31.9%	-10.0%
Gross Margin (% of sales)	29.9%	23.2%	31.8%
- vs. prior year (in basis points)	-230	370	-320

Operating Income / (Loss)	\$ 39.4	\$ (2.3)	\$ 33.9
- vs. prior year	-14.2%	83.2%	-18.9%
- on constant currency	-23.0%	78.7%	-21.1%
Operating Margin (% of sales)	8.4%	-1.2%	12.2%
- vs. prior year (in basis points)	-240	650	-270
Adjusted Operating Income / (Loss) *	\$ 46.4	\$ (1.2)	\$ 36.2
- vs. prior year	4.7%	62.5%	-15.6%
- on constant currency	-4.4%	43.1%	-17.7%
Adj. Oper. Margin (% of sales)*	9.9%	-0.6%	13.1%
- vs. prior year (in basis points)	-50	120	-220
Backlog	\$ 819.5	\$ 403.5	\$ 646.2

* 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, 2018	December 31, 2017
(Amounts in thousands, except par value)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 535,657	\$ 703,445
Accounts receivable, net of allowance for doubtful accounts of \$58,662 and \$59,113, respectively	775,244	856,711
Contract assets, net	286,190	-
Inventories, net	701,847	884,273
Prepaid expenses and other	112,375	114,316
Total current assets	2,411,313	2,558,745
Property, plant and equipment, net of accumulated depreciation of \$998,305 and \$968,033, respectively	668,456	671,796
Goodwill	1,231,761	1,218,188
Deferred taxes	47,745	51,974
Other intangible assets, net	208,690	210,049
Other assets, net	202,351	199,722

Total assets	<u>\$ 4,770,316</u>	<u>\$ 4,910,474</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 399,362	\$ 443,113
Accrued liabilities	405,209	724,196
Contract liabilities	176,906	-
Debt due within one year	71,484	75,599
Total current liabilities	<u>1,052,961</u>	<u>1,242,908</u>
Long-term debt due after one year	1,501,423	1,499,658
Retirement obligations and other liabilities	512,385	496,954
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	481,855	488,326
Retained earnings	3,514,296	3,503,947
Treasury shares, at cost – 46,273 and 46,471 shares, respectively	(2,051,020)	(2,059,558)
Deferred compensation obligation	6,216	6,354
Accumulated other comprehensive loss	(487,111)	(505,473)
Total Flowserve Corporation shareholders' equity	<u>1,685,227</u>	<u>1,654,587</u>
Noncontrolling interests	18,320	16,367
Total equity	<u>1,703,547</u>	<u>1,670,954</u>
Total liabilities and equity	<u>\$ 4,770,316</u>	<u>\$ 4,910,474</u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Amounts in thousands)	Three Months Ended March	
	2018	2017
31,		
Cash flows – Operating activities:		
Net earnings, including noncontrolling interests	\$ 16,459	\$ 19,289
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation	24,693	24,586
Amortization of intangible and other assets	4,220	4,039
Stock-based compensation	3,962	11,307
Foreign currency and other non-cash adjustments	(7,227)	319
Change in assets and liabilities:		
Accounts receivable, net	41,850	67,466

Inventories, net	(48,599)	(27,110)
Contract assets, net	(64,402)	-
Prepaid expenses and other assets, net	203	(7,510)
Accounts payable	(59,645)	(60,740)
Contract liabilities	(3,870)	-
Accrued liabilities and income taxes payable	(32,583)	(36,010)
Retirement obligations and other	(2,024)	2,253
Net deferred taxes	6,236	6,038
Net cash flows (used) provided by operating activities	<u>(120,727)</u>	<u>3,927</u>
Cash flows – Investing activities:		
Capital expenditures	(13,490)	(15,862)
Proceeds from disposal of assets and other	600	367
Net cash flows used by investing activities	<u>(12,890)</u>	<u>(15,495)</u>
Cash flows – Financing activities:		
Payments on long-term debt	(15,000)	(15,000)
Proceeds under other financing arrangements	76	5,715
Payments under other financing arrangements	(4,198)	(1,314)
Payments related to tax withholding for stock-based compensation	(2,288)	(3,198)
Payments of dividends	(24,826)	(24,785)
Other	(619)	(244)
Net cash flows used by financing activities	<u>(46,855)</u>	<u>(38,826)</u>
Effect of exchange rate changes on cash	12,684	9,015
Net change in cash and cash equivalents	<u>(167,788)</u>	<u>(41,379)</u>
Cash and cash equivalents at beginning of period	703,445	367,162
Cash and cash equivalents at end of period	<u>\$ 535,657</u>	<u>\$ 325,783</u>

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