Flowserve Reports Third Quarter 2013 Results

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Third Quarter EPS of $0.90 increased 30.4% from prior year

Increased bookings, sales, gross profit and operating income year-over-year; margins improved

Narrowed 2013 Full Year EPS Target Range to $3.33 to $3.53

DALLAS, October 24, 2013 - Flowserve Corporation (NYSE:FLS), a leading provider of flow control products and services for the global infrastructure markets, announced today its financial results for the 2013 third quarter. In addition, Flowserve also today filed its Form 10-Q with the Securities and Exchange Commission for the period ended September 30, 2013.

Highlights of 2013 Third Quarter (all comparisons versus prior year quarter, unless otherwise noted):

- Fully diluted EPS of $0.90, up 30.4% compared to $0.69 per share
  - Fully diluted EPS up approximately 22% excluding below the line FX currency effects year over year
- Bookings of $1.23 billion, up 3.7%, or 3.4% on a constant currency basis
  - Original equipment bookings of $750.3 million, up 5.6%, or 4.4% on a constant currency basis, and up sequentially 3.6%
  - Aftermarket bookings of $479.5 million, up 0.9%, or 1.9% on a constant currency basis
- Sales of $1.23 billion, up 5.4%, or 6.4% on a constant currency basis
  - Aftermarket sales of $464.7 million, up 1.4%, or 2.5% on a constant currency basis
- Gross profit increased $33.1 million to $422.7 million, up 8.5%
- Gross margin improved 100 basis points to 34.4%
- SG&A spend essentially flat, and as a percentage of sales decreased 70 basis points to 18.8%
- Operating income increased $27.7 million to $193.4 million, up 16.7%
- Operating margin of 15.7% increased 150 basis points

"We are pleased with the progress and momentum demonstrated thus far in 2013, evidenced by these strong third quarter results," said Mark Blinn, Flowserve's president and chief executive officer. "Our continued internal improvement initiatives have the company well-positioned for disciplined profitable growth, continued operational improvement and project opportunities. Key takeaways from the 2013 third quarter include:

- Ongoing operational excellence initiatives, including 'One Flowserve,' buoyed our margin improvements and supported EPS growth for the quarter as well as year-to-date compared to 2012;
- Solid year-over-year and sequential OE bookings growth, particularly in EPD, is a positive indicator despite a difficult 2012 compare quarter that included large IPD orders exceeding $90 million;
- Continued bidding discipline remains paramount, as initial large project opportunities anticipated to be highly competitive;
- Diversity in geographic exposure, business mix, customer base and end markets remains a major strength;
- Aftermarket strategies and run-rate original equipment projects again contributed to increased sales and gross profits, and producing an improved level-loading of our

business during the year;
- Significant shipments of "legacy" projects suppressed EPD margins this quarter, but improved past-due metrics and enhanced the quality of quarter-end backlog;
- Earnings leverage on volume in EPD and gross margin increases in FCD, again drove single-digit sales growth into double-digit profit improvement for the third consecutive quarter;
- IPD gross margin increase of 120 basis points is encouraging progress, solidifying the operational platform to pursue growth;
- Strong SG&A expense and fixed cost leverage realized and remains a key focus; and
- While some uncertainty remains within the global economy, the strength of our business model and the energy markets we serve provide confidence to our outlook for long-term earnings growth."

"In summary, our strong third quarter results again demonstrate that our internal initiatives, disciplined approach and end-user strategies are delivering value to our customers, and in turn to Flowserve shareholders."

Financial Performance and Guidance

"For the third quarter of 2013, our single-digit revenue increase produced solid operating leverage and incremental margins. These improvements, when combined with the share count reduction, delivered EPS growth over 30%," commented Mike Taff, Flowserve's senior vice president and chief financial officer. "Focused cost control yielded impressive SG&A leverage during the 2013 third quarter, as compared to 2012, driving SG&A as a percent of sales to 18.8%, as each segment delivered a reduction in absolute dollar SG&A spend."

"Even with our strong third quarter financial results, we continue to address opportunities to improve our performance. Initiatives to improve our working capital are an example and are gaining traction. In the 2013 third quarter, we realized solid operating cash flow improvement both year-over-year and sequentially. We also showed progress in a five day reduction in DSO compared to prior year, which builds on the three day improvement in the second quarter. With meaningful "legacy" shipments, we also saw significant improvement in our past due backlog, although our inventory turns were essentially flat. Overall, this progress validates that our focus is well-placed and that opportunities remain available."

"As we pursue our long-term working capital and cash flow goals, we remain strategically focused on deploying cash to the most accretive long-term alternatives, including organic and acquisitive investments or by returning excess capital to our shareholders, all while maintaining a solid balance sheet. Through the first nine months of 2013, Flowserve returned approximately $427 million in share repurchases and dividends. Going forward, we will remain faithful to this disciplined approach to capital deployment."

"We are encouraged by the year-to-date results we have delivered with a more level-loaded business, but we still anticipate the fourth quarter to be the pinnacle of the full year. As such, we have increased the lower-end of our prior guidance range, and now expect 2013 EPS between $3.33 and $3.53."

Operational Commentary and Segment Performance (all comparisons versus third quarter 2012 unless otherwise noted)

"Our strong and improved operational performance was validated by these solid third quarter results," said Tom Pajonas, senior vice president and chief operating officer. "In particular, the benefits from our 'One Flowserve' initiatives continue to enhance our operations, while our commitment to a disciplined and selective pursuit of project work is designed to generate sales with the desired outcomes. Together, this formula in the 2013 third quarter delivered significant flow through to the operating income line in EPD, with continued strong income and margin growth in FCD. As we look ahead, these ongoing essentials are positioning the business to maximize project opportunities as the cycle gains momentum."

"In the third quarter 2013, Flowserve customers entrusted us with our highest level of original equipment bookings since the first quarter of 2012, representing continued strong run-rate activity plus a few medium size awards. With regard to larger orders, we remain encouraged by the size and number of projects that are progressing through the pre-FEED and FEED stages, including a few which have already been officially awarded to EPC firms. Our larger OE bookings typically follow this process, and therefore the vast majority of opportunities are still on the horizon. We anticipate that initial bidding opportunities for larger projects will prove very competitive. As such, we will maintain our discipline and selectivity to ensure the quality of our backlog."

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 of 2013 include:

Third Quarter 2013 - Segment Results

(dollars in millions, comparison vs. 2012 third quarter, unaudited)

	EPD	**IPD**	**FCD**
Bookings	$ 665.3	$ 228.5	$ 373.2
- vs. prior year	20.2%	-19.4%	-2.1%
- on constant currency	20.9%	-20.5%	-3.2%
Sales	$ 651.4	$ 222.4	$ 394.4
- vs. prior year	14.8%	-8.7%	-0.1%
- on constant currency	17.8%	-9.5%	-1.1%
Gross Profit	$ 219.2	$ 56.8	$ 147.4
- vs. prior year	14.0%	-3.9%	5.6%
Gross Margin (% of sales)	33.7%	25.5%	37.4%
- vs. prior year (in basis points)	-20	120	200
Operating Income	$ 114.0	$ 25.2	$ 76.7
- vs. prior year	31.0%	-5.3%	12.3%
- on constant currency	36.8%	-9.0%	13.8%
Operating Margin (% of sales)	17.5%	11.3%	19.4%
- vs. prior year (in basis points)	220	40	210
Backlog	$ 1,411.8	$ 561.5	$ 781.1

Third Quarter 2013 Year-to-Date Highlights

For the first nine months of 2013, Flowserve's fully diluted EPS was $2.41 per share, up 26.2%, on a 4.2% increase in total sales to $3.57 billion. Gross profit of $1.22 billion and operating income of $547.4 million, during the first nine months of 2013, represented margins of 34.2%, up 110 basis points, and 15.4%, up 160 basis points, respectively. Bookings for the nine months ended September 30, 2013 totaled over $3.6 billion.

Third Quarter 2013 Results Conference Call

Flowserve will host its conference call with the financial community on Friday, October 25, 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.

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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, 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 the global financial markets and the availability of capital 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; 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; 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 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.

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CONDENSED CONSOLIDATED STATEMENTS OF INCOME(Unaudited)

(Amounts in thousands, except per share data)	Three Months Ended September 30,	
	2013	2012
Sales	$ 1,229,057	$ 1,165,923
Cost of sales	(806,318)	(776,319)
Gross profit	422,739	389,604
Selling, general and administrative expense	(231,569)	(227,797)
Net earnings from affiliates	2,218	3,899
Operating income	193,388	165,706
Interest expense	(13,046)	(12,144)
Interest income	325	208
Other income (expense), net	1,733	(9,167)
Earnings before income taxes	182,400	144,603
Provision for income taxes	(55,870)	(37,769)
Net earnings, including noncontrolling interests	126,530	106,834
Less: Net earnings attributable to noncontrolling interests	(259)	(538)
Net earnings attributable to Flowserve Corporation	$ 126,271	$ 106,296
Net earnings per share attributable to Flowserve Corporation common shareholders:		
Basic	$ 0.90	$ 0.70

Diluted[1]	0.90	0.69
Cash dividends declared per share	$ 0.14	$ 0.12

[1]Calculated using fully diluted shares of 141,085 and 153,855 shares, respectively

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Amounts in thousands, except per share data)	Nine Months Ended September 30,	
	2013	2012
Sales	$ 3,565,179	$ 3,423,128
Cost of sales	(2,347,555)	(2,289,739)
Gross profit	1,217,624	1,133,389
Selling, general and administrative expense	(706,278)	(673,578)
Net earnings from affiliates	36,043	13,214
Operating income	547,389	473,025
Interest expense	(38,262)	(29,876)
Interest income	877	727
Other expense, net	(8,679)	(22,151)
Earnings before income taxes	501,325	421,725
Provision for income taxes	(154,998)	(112,864)
Net earnings, including noncontrolling interests	346,327	308,861
Less: Net earnings attributable to noncontrolling interests	(1,878)	(2,124)
Net earnings attributable to Flowserve Corporation	$ 344,449	$ 306,737
Net earnings per share attributable to Flowserve Corporation common shareholders:		
Basic	$ 2.42	$ 1.92
Diluted[2]	2.41	1.91
Cash dividends declared per share	$ 0.42	$ 0.36

[2]Calculated using fully diluted shares of 143,199 and 160,581 shares, respectively

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Amounts in thousands, except par value)	September 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 113,751	$ 304,252
Accounts receivable, net of allowance for doubtful accounts of $25,916 and $21,491, respectively	1,089,748	1,103,724
Inventories, net	1,184,188	1,086,663
Deferred taxes	150,760	151,093
Prepaid expenses and other	88,204	94,484
Total current assets	2,626,651	2,740,216
Property, plant and equipment, net of accumulated depreciation of $837,476 and $784,864, respectively	678,934	654,179
Goodwill	1,058,802	1,053,852
Deferred taxes	26,241	26,706
Other intangible assets, net	143,067	150,075
Other assets, net	162,499	185,930
Total assets	$ 4,696,194	$ 4,810,958
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 495,295	$ 616,900
Accrued liabilities	822,414	906,593
Debt due within one year	268,934	59,478
Deferred taxes	7,606	7,654
Total current liabilities	1,594,249	1,590,625
Long-term debt due after one year	839,224	869,116
Retirement obligations and other liabilities	452,254	456,742
Shareholders' equity:		
Common shares, $1.25 par value	220,991	220,991
Shares authorized - 305,000 Shares issued - 176,793 and 176,793, respectively		
Capital in excess of par value	464,990	467,856
Retained earnings	2,863,863	2,579,308

Treasury shares, at cost - 38,357 and 32,389 shares, respectively	(1,511,768)	(1,164,496)
Deferred compensation obligation	9,359	10,870
Accumulated other comprehensive loss	(242,778)	(224,310)
Total Flowserve Corporation shareholders' equity	1,804,657	1,890,219
Noncontrolling interest	5,810	4,256
Total equity	1,810,467	1,894,475
Total liabilities and equity	$ 4,696,194	$ 4,810,958

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Amounts in thousands)	Nine Months Ended September 30,	
	2013	2012
Cash flows - Operating activities:		
Net earnings, including noncontrolling interests	$ 346,327	$ 308,861
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	66,700	66,027
Amortization of intangible and other assets	11,884	14,751
Loss on early extinguishment of debt	-	1,293
Net gain on disposition of assets	(248)	(10,461)
Gain on sale of equity investment in affiliate	(12,995)	-
Gain on remeasurement of acquired assets	(15,315)	-
Excess tax benefits from stock-based compensation arrangements	(10,104)	(11,056)
Stock-based compensation	24,395	25,942
Net earnings from affiliates, net of dividends received	(3,397)	(5,798)
Change in assets and liabilities:		
Accounts receivable, net	10,828	(45,566)
Inventories, net	(101,745)	(149,254)
Prepaid expenses and other	(6,870)	(8,968)
Other assets, net	(12,574)	(11,609)
Accounts payable	(126,976)	(75,169)

Accrued liabilities and income taxes payable	(61,139)	26,057
Retirement obligations and other liabilities	(8,512)	(6,737)
Net deferred taxes	8,629	4,251
Net cash flows provided by operating activities	108,888	122,564
Cash flows - Investing activities:		
Capital expenditures	(94,702)	(84,180)
Proceeds from disposal of assets	969	11,473
Payments for acquisitions, net of cash acquired	(10,143)	(3,996)
Proceeds from (contributions to) equity investments in affiliates	46,240	(3,825)
Net cash flows used by investing activities	(57,636)	(80,528)
Cash flows - Financing activities:		
Excess tax benefits from stock-based compensation arrangements	10,104	11,056
Payments on long-term debt	(15,000)	(475,000)
Proceeds from issuance of senior notes	-	498,075
Proceeds from issuance of long-term debt	-	400,000
Proceeds from short-term financing, net	196,000	-
(Payments) borrowings under other financing arrangements, net	(571)	294
Repurchases of common shares	(370,127)	(533,864)
Payments of dividends	(57,337)	(55,569)
Payment of deferred loan costs	-	(9,657)
Other	(78)	(248)
Net cash flows used by financing activities	(237,009)	(164,913)
Effect of exchange rate changes on cash	(4,744)	2,941
Net change in cash and cash equivalents	(190,501)	(119,936)
Cash and cash equivalents at beginning of period	304,252	337,356
Cash and cash equivalents at end of period	$ 113,751	$ 217,420

SEGMENT INFORMATION

ENGINEERED PRODUCT DIVISION	Three Months Ended September 30,	
(Amounts in millions, except percentages)	2013	2012
Bookings	$ 665.3	$ 553.7
Sales	651.4	567.5
Gross profit	219.2	192.3
Gross profit margin	33.7%	33.9%
Operating income	114.0	87.0
Operating margin	17.5%	15.3%

INDUSTRIAL PRODUCT DIVISION	Three Months Ended September 30,	
(Amounts in millions, except percentages)	2013	2012
Bookings	$ 228.5	$ 283.5
Sales	222.4	243.6
Gross profit	56.8	59.1
Gross profit margin	25.5%	24.3%
Operating income	25.2	26.6
Operating margin	11.3%	10.9%

FLOW CONTROL DIVISION	Three Months Ended September 30,	
(Amounts in millions, except percentages)	2013	2012
Bookings	$ 373.2	$ 381.4
Sales	394.4	394.7
Gross profit	147.4	139.6
Gross profit margin	37.4%	35.4%
Operating income	76.7	68.3
Operating margin	19.4%	17.3%

SEGMENT INFORMATION

ENGINEERED PRODUCT DIVISION	Nine Months Ended September 30,	
(Amounts in millions, except percentages)	2013	2012
Bookings	$ 1,845.5	$ 1,818.2
Sales	1,816.0	1,689.0
Gross profit	617.4	571.4
Gross profit margin	34.0%	33.8%
Operating income	296.8	274.2
Operating margin	16.3%	16.2%

INDUSTRIAL PRODUCT DIVISION	Nine Months Ended September 30,	
(Amounts in millions, except percentages)	2013	2012
Bookings	$ 643.3	$ 758.1
Sales	672.6	688.4
Gross profit	172.0	164.6
Gross profit margin	25.6%	23.9%
Operating income	77.1	67.8
Operating margin	11.5%	9.8%

FLOW CONTROL DIVISION	Nine Months Ended September 30,	
(Amounts in millions, except percentages)	2013	2012
Bookings	$ 1,250.8	$ 1,173.0
Sales	1,189.6	1,160.1
Gross profit	428.4	399.1
Gross profit margin	36.0%	34.4%
Operating income	236.7	184.4
Operating margin	19.9%	15.9%