FLOWSERVE

# First Quarter 2019 Earnings Conference Call

*May 3, 2019*

# Forward Looking Statements and Non-GAAP Measures

Safe Harbor Statement: This presentation 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," “targets” 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 presentation 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; if we are not able to successfully execute and realize the expected financial benefits from our strategic transformation and realignment initiatives, our business could be adversely affected; 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, trade embargoes or changes to tariffs or trade agreements 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, including in hyperinflationary countries such as Venezuela and Argentina; 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; 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; access to public and private sources of debt financing; our inability to protect our intellectual property in the U.S., as well as in foreign countries; obligations under our defined benefit pension plans; 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; our information technology infrastructure could be subject to service interruptions, data corruption, cyber-based attacks or network security breaches, which could disrupt our business operations and result in the loss of critical and confidential information; 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 presentation 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.

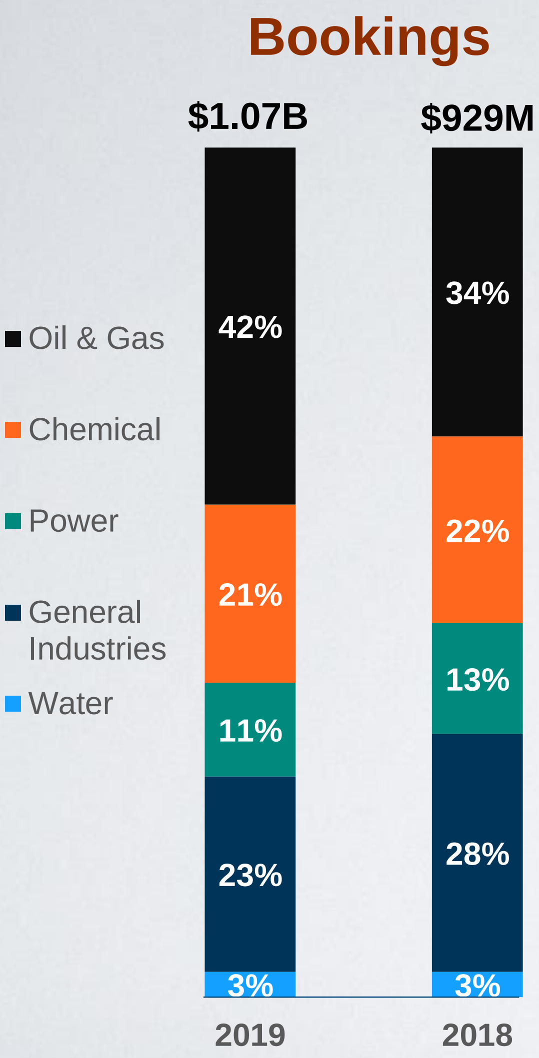
We have provided tables on page 10 that reconciles these non-GAAP measures to their corresponding GAAP-based measures.

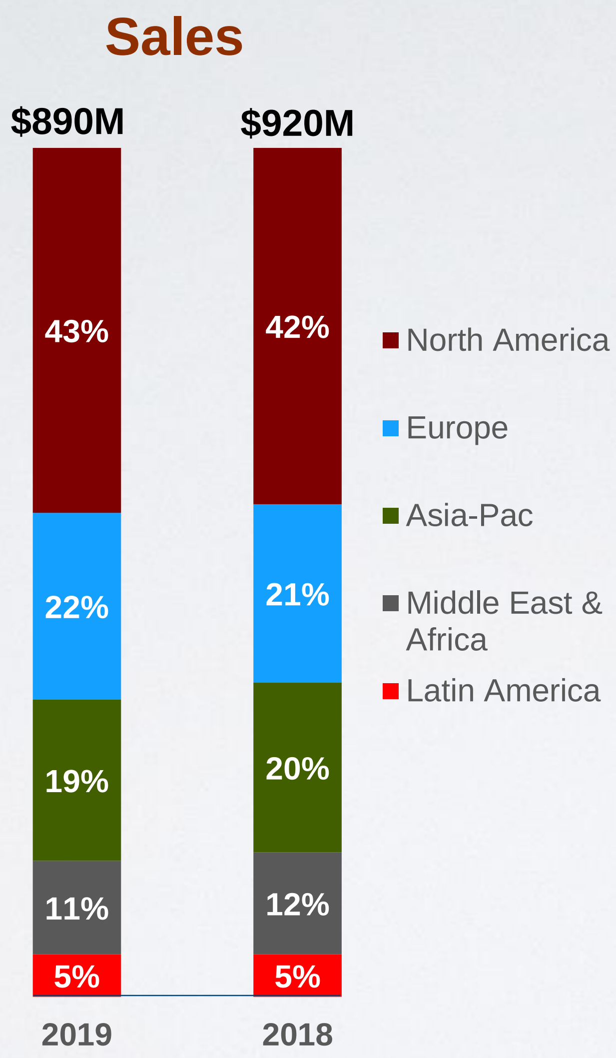
# Q1 2019 Overview

- **Q1 2019 Reported and Adjusted EPS* of $0.44 and $0.41**
- **Bookings increased 14.9%, or 19.3% constant currency**
  - ***Strong original equipment growth of 24.5% driven by 45% increase in oil and gas***
  - ***Aftermarket bookings increased 5.8%, or 10.4% constant currency***
- **Revenue decreased 3.3.%, or increased approximately 2% excluding currency and divestiture headwinds**
- **Adjusted gross and operating margins* increased 340 and 310 basis points to 33.7% and 9.9%**
  - ***Strong results driven by continued FLS 2.0 transformation progress***
- **Strong operating cash flow improvement of nearly $160 million versus prior year first quarter**
- **Backlog increased 9.2% versus 2018 year-end backlog on 1.2 book-to-bill**


* See table on page 10 for reconciliation to corresponding GAAP-based measure

# Q1 Bookings & Sales Mix




## End-Markets

### Oil & Gas

- Downstream brownfield activity and MRO spending driven by increased clean fuels demand and increased focus on maintenance and efficiency
- North American pipeline and upstream opportunities continue
- Increased global natural gas demand moving large LNG projects towards FID

### Chemical

- Expected global chemical demand driving investment in the Middle East and North America, including ethylene and derivative chemical production
- National oil companies investing to integrate and capitalize further up the petrochemical value chain

### Power

- Thermal solar provides growing opportunity in renewable market where Flowserve provides strong technical offering
- Fossil market remains challenged, with limited build in Asia and Eastern Europe
- New build nuclear opportunities in Asia and ongoing investment to maintain aging nuclear fleet

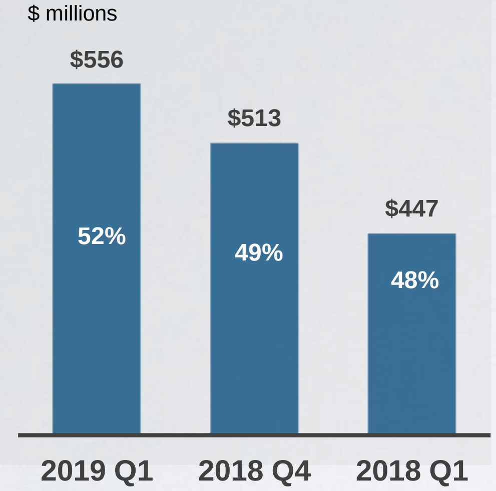
### General Industries

- Global growth expected to support distribution activity, while North America negatively impacted by oil price volatility

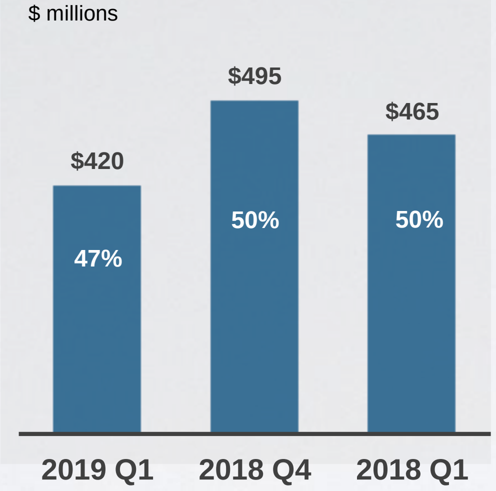
# Original Equipment / Aftermarket Mix

## Original Equipment

### Bookings Mix %



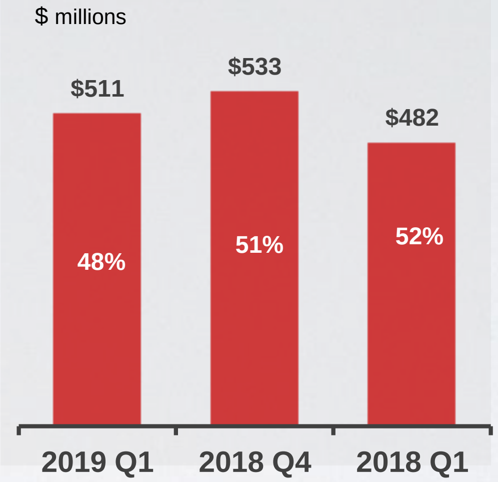

### Sales Mix %



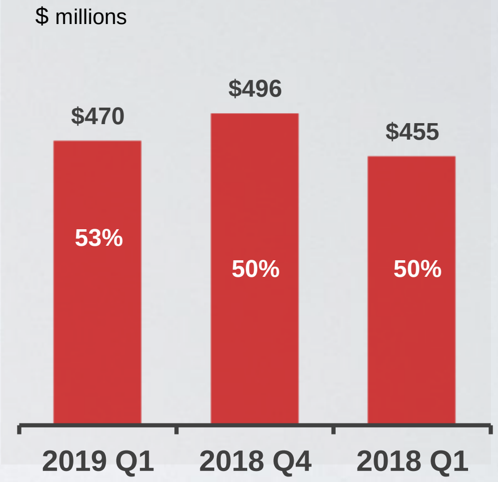

- **Original equipment bookings increased 24.5%, or 28.5% constant currency vs. Q1 2018**
- **Original equipment sales decreased 9.7%, or 6.9% constant currency vs. Q1 2018**

## Aftermarket

### Bookings Mix %



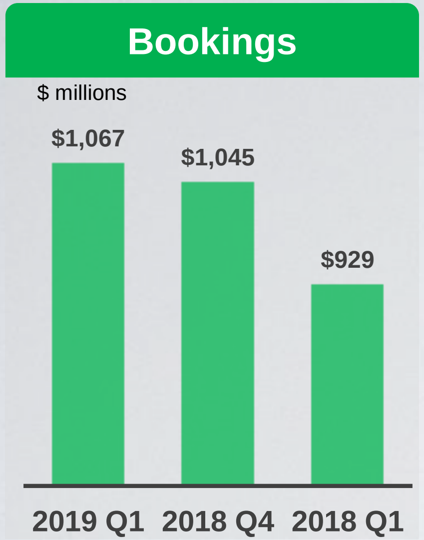

### Sales Mix %

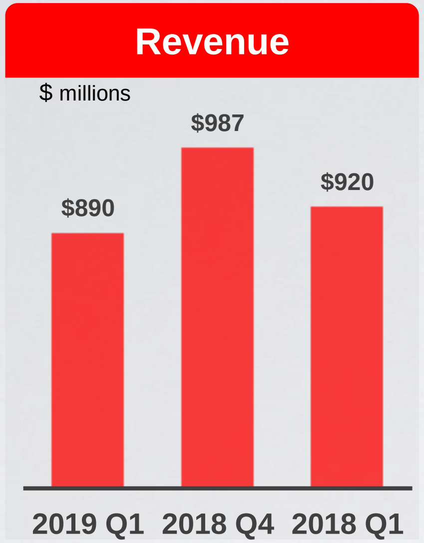


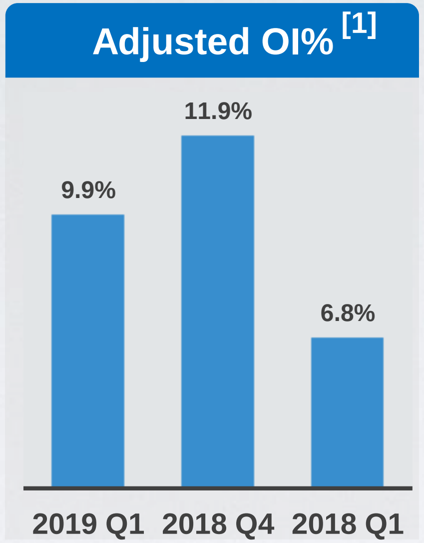

- **Aftermarket bookings increased 5.8%, or 10.4% constant currency vs. Q1 2018**
- **Aftermarket sales increased 3.4%, or 7.9% constant currency vs. Q1 2018**

***2019 Q1 Booking and Sales include headwind from 2018 business divestitures of approximately 1.5% and 1.0%, respectively***

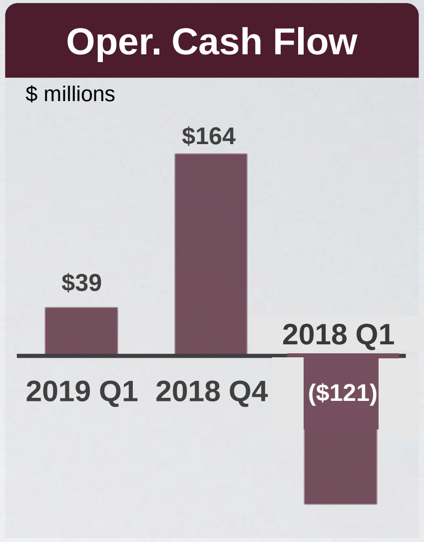
# Q1 2019 Financial Scorecard [1]

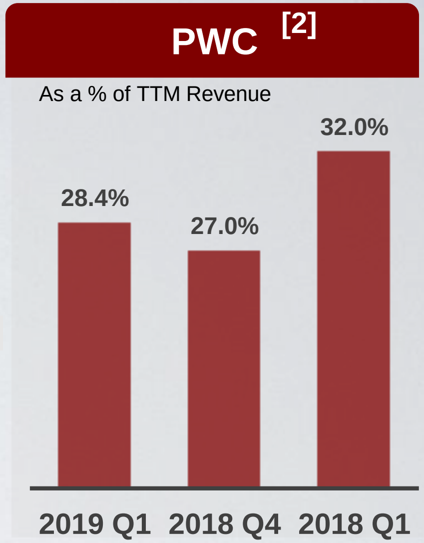







## Q1 Highlights

- **Bookings growth of 14.9% included strong OE increase of 24.5% driven by oil and gas growth of 45%**
- **Revenue declined 3.3% including roughly 5% headwinds from currency and divested assets**
- **Adjusted operating margin[1] increased 310 basis points on continued operational improvements and 300 basis point sales mix shift towards aftermarket**
- **Adjusted EPS[1] of $0.41 increased over 50% on continued FLS 2.0 transformation progress**
- **Primary working capital as a percent of sales decreased 360 basis points on $106 million improvement versus prior year first quarter**

[1] See table on page 10 for reconciliation to corresponding GAAP-based measure
[2] Primary working capital "PWC" includes accounts receivable, inventory, contract assets, accounts payable and contract liabilities.

# 2019 Guidance Assumptions

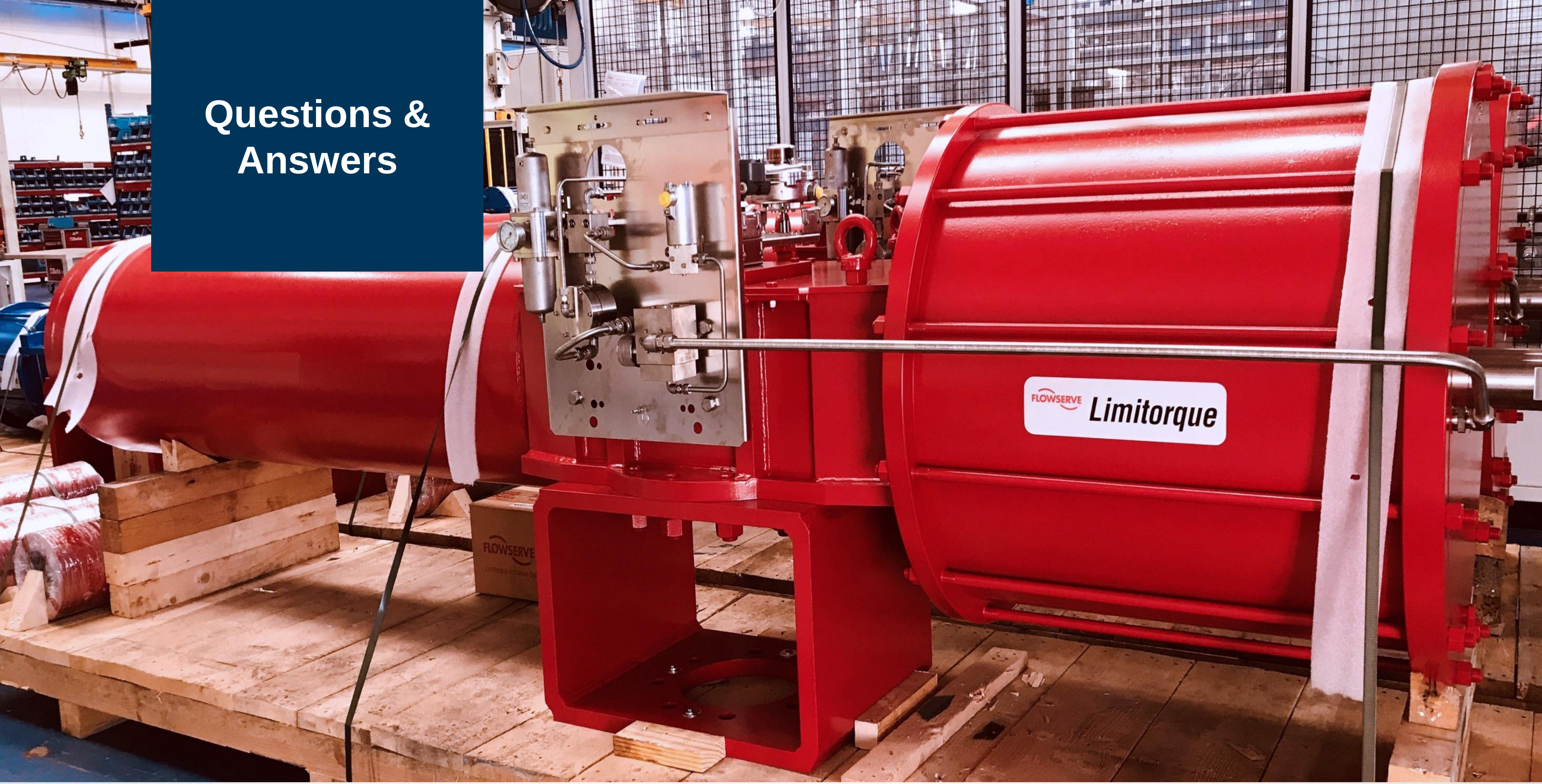
| Guidance Assumptions | 2019 Guidance [1] |
|---|---|
| Revenue Guidance [2] | 4% - 6% |
| Reported EPS Guidance | $1.60 - $1.80 |
| Adjusted EPS Guidance [3] | $1.95 - $2.15 |
| EUR Rate | 1.16 |
| Adjusted Tax Rate | 26% - 28% |
| Capital Expenditures | $90 - $100 million |

[1] 2019 Reported and Adjusted EPS guidance as of May 3, 2019, assumes 131 million diluted shares

[2] 2019 Revenue guidance includes approximately 2% negative impact from currency and 2018 divestitures

[3] Adjusted EPS guidance excludes expected realignment and transformation charges of approximately $65 million, below-the-line FX impact and other specific discrete items.

# Questions & Answers



# Appendix

# Q1 2019 Consolidated Financial Results

| | 1st Quarter | | | | | 1st Quarter Adjusted | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ($ millions) | 2019 | 2018 | Delta ($) | Delta (%) | Constant FX(%)* | 2019 Adjusted Items | 2019 Adjusted Results | 2018 Adjusted Results | Delta ($) | Delta (%) | Constant FX(%)* |
| **Bookings** | $ 1,066.8 | $ 928.5 | **$ 138.3** | **14.9%** | **19.3%** | $ - | $ 1,066.8 | $ 928.5 | **$ 138.3** | **14.9%** | **19.3%** |
| **Sales** | $ 890.1 | $ 920.0 | **$ (29.9)** | **-3.3%** | **0.4%** | $ - | $ 890.1 | $ 920.0 | **$ (29.9)** | **-3.3%** | **0.4%** |
| **Gross Profit** | $ 294.1 | $ 271.4 | **$ 22.6** | **8.3%** | | $ (5.5) **(1)** | $ 299.6 | $ 278.6 **(5)** | **$ 21.0** | **7.5%** | |
| **Gross Margin (%)** | 33.0% | 29.5% | | **350 bps** | | | 33.7% | 30.3% | | **340 bps** | |
| **SG&A** | $ 205.2 | $ 229.2 | **$ (24.0)** | **-10.5%** | **-7.6%** | $ (9.0) **(2)** | $ 214.2 | $ 219.4 **(6)** | **$ (5.2)** | **-2.4%** | **0.6%** |
| **SG&A (%)** | 23.0% | 24.9% | | **-190 bps** | | | 24.1% | 23.8% | | **30 bps** | |
| **Income from Affiliates** | $ 2.3 | $ 3.2 | **$ (0.9)** | **-27.1%** | | $ - | $ 2.3 | $ 3.2 | **$ (0.9)** | **-28.1%** | |
| **Operating Income** | $ 91.2 | $ 45.4 | **$ 45.8** | **100.8%** | **112.5%** | $ 3.5 | $ 87.7 | $ 62.4 | **$ 25.3** | **40.5%** | **49.0%** |
| **Operating Margin (%)** | 10.2% | 4.9% | | **530 bps** | | | 9.9% | 6.8% | | **310 bps** | |
| **Other Expense, net **** | $ (1.1) | $ (5.5) | **$ 4.4** | **79.8%** | | $ (2.7) **(3)** | $ 1.6 | $ 2.4 **(7)** | **$ (0.8)** | **-33.3%** | |
| **Tax Expense** | $ (16.6) | $ (8.6) | **$ (8.0)** | **-93.5%** | | $ 2.7 **(4)** | $ (19.3) | $ (13.7) **(8)** | **$ (5.6)** | **40.9%** | |
| **Net Earnings** | $ 57.3 | $ 15.1 | **$ 42.1** | **278.1%** | | $ 3.5 | $ 53.8 | $ 34.9 | **$ 18.9** | **54.2%** | |
| **Diluted EPS** | **$ 0.44** | **$ 0.12** | **$ 0.32** | **266.7%** | | **$ 0.03** | **$ 0.41** | **$ 0.27** | **$ 0.14** | **51.9%** | |

- Diluted EPS calculated using fully diluted shares of 131.5 and 131.1 million shares for Q1 2019 and Q1 2018, respectively

* Constant FX represents the year-over-year variance assuming 2019 results at 2018 FX rates

1. Cost of sales includes $5.5 million of realignment charges
2. SG&A includes $17.4 million of net realignment benefit and $8.4 million of transformation charges
3. Below-the-line FX impacts
4. Includes tax impact of above items

** First Quarter 2019 includes a loss of $2.7 million arising from transactions in currencies other than our sites' functional currencies and impact of foreign exchange contracts vs. a loss of $8.0 million in Q1 2018

5. Excludes $7.2 million of realignment charges
6. Excludes $4.3 million of realignment charges and $5.5 million of ASC 606 implementation and transformation charges
7. Excludes $8.0 million below-the-line FX loss
8. Excludes tax impact of above items

# Flowserve Pump Division
# Q1 2019 Segment Results

| 1st Quarter | | | | | |
|---|---|---|---|---|---|
| ($ millions) | 2019 | 2018 | Delta ($) | Delta (%) | Constant FX(%)* |
| Bookings | $ 750.2 | $ 604.2 | $ 146.0 | 24.2% | 29.0% |
| Sales | $ 609.4 | $ 644.4 | $ (35.0) | -5.4% | -1.8% |
| Gross Profit | $ 200.6 | $ 183.3 | $ 17.3 | 9.4% | |
| Gross Margin (%) | 32.9% | 28.4% | | 450 bps | |
| SG&A | $ 122.4 | $ 151.8 | $ (29.4) | -19.4% | -16.5% |
| SG&A (%) | 20.1% | 23.6% | | (350) bps | |
| Income from Affiliates | $ 2.3 | $ 3.2 | $ (0.9) | -28.1% | |
| Operating Income | $ 80.5 | $ 34.7 | $ 45.8 | 131.9% | 145.9% |
| Operating Margin (%) | 13.2% | 5.4% | | 780 bps | |
| Adjusted Operating Income** | $ 67.2 | $ 42.8 | $ 24.4 | 57.0% | 68.5% |
| Adjusted Operating Margin%** | 11.0% | 6.6% | | 440 bps | |

* Constant FX represents the year over year variance assuming 2019 results at 2018 FX rates

** Adjusted Operating Income and Adjusted Operating Margin exclude net realignment benefit of $13.3 million and $8.1 million expense for Q1 2019 and Q1 2018, respectively

# Flowserve Pump Division
# Q1 2019 Bookings and Sales

| 1st Quarter 2019 | | | | | |
|---|---|---|---|---|---|
| ($ millions) | | 2019 | 2018 | Delta (%) | Constant FX(%)* |
| Bookings Mix ** | OE | 318 | 204 | **56%** | **62%** |
| | | 42% | 34% | | |
| | AM | 433 | 400 | **8%** | **12%** |
| | | 58% | 66% | | |
| Sales Mix ** | OE | 206 | 254 | **-19%** | **-15%** |
| | | 34% | 39% | | |
| | AM | 403 | 390 | **3%** | **7%** |
| | | 66% | 61% | | |

* Constant FX represents the year over year variance assuming 2019 results at 2018 FX rates
** Gross bookings and sales do not include interdivision eliminations

# Flow Control Division
# Q1 2019 Segment Results

| | 1st Quarter | | | | |
|---|---|---|---|---|---|
| ($ millions) | 2019 | 2018 | Delta ($) | Delta (%) | Constant FX(%)* |
| Bookings | $ 319.8 | $ 327.3 | $ (7.5) | -2.3% | 1.0% |
| Sales | $ 282.1 | $ 277.2 | $ 4.9 | 1.8% | 5.3% |
| Gross Profit | $ 97.7 | $ 88.2 | $ 9.5 | 10.8% | |
| Gross Margin (%) | 34.6% | 31.8% | | 280 bps | |
| SG&A | $ 53.3 | $ 54.3 | $ (1.0) | -1.9% | 1.0% |
| SG&A (%) | 19.0% | 19.6% | | -60 bps | |
| Operating Income | $ 44.4 | $ 33.9 | $ 10.5 | 31.1% | 35.0% |
| Operating Margin (%) | 15.7% | 12.2% | | 350 bps | |
| Adjusted Operating Income** | $ 45.2 | $ 36.2 | $ 9.0 | 24.9% | 28.5% |
| Adjusted Operating Margin%** | 16.0% | 13.1% | | 290 bps | |

* Constant FX represents the year over year variance assuming 2019 results at 2018 FX rates
** Adjusted Operating Income and Adjusted Operating Margin exclude realignment charges of $0.8 million and $2.3 million for Q1 2019 and Q1 2018, respectively

# Flow Control Division
# Q1 2018 Bookings and Sales

| | | 1st Quarter 2019 | | | |
|---|---|---|---|---|---|
| ($ millions) | | 2019 | 2018 | Delta (%) | Constant FX(%)* |
| Bookings Mix ** | OE | 240 | 244 | -1% | 1% |
| | | 75% | 74% | | |
| | AM | 80 | 84 | -5% | 2% |
| | | 25% | 26% | | |
| Sales Mix ** | OE | 214 | 212 | 1% | 2% |
| | | 76% | 76% | | |
| | AM | 67 | 66 | 1% | 11% |
| | | 24% | 24% | | |

* Constant FX represents the year over year variance assuming 2019 results at 2018 FX rates
** Gross bookings and sales do not include interdivision eliminations

FLOWSERVE®

*Experience In Motion*

# Investor Relations Contacts


***Jay Roueche***
***972.443.6560***
***jroueche@flowserve.com***

***Mike Mullin***
***972.443.6636***
***mmullin@flowserve.com***