

# FLOWSERVE CORPORATION

(NYSE: FLS)

## Stifel Industrials Conference

*February 27, 2014*

# Safe Harbor Statement

**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” 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 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 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; our ability to execute and realize the expected financial benefits from our strategic 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; 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 presentation are based on information available to us on the date hereof, and we assume no obligation to update any forward-looking statement.

# Flowserve Corporation

- **Leading manufacturer and aftermarket service provider of comprehensive flow control systems**
  - History dates back to 1790 with more than 50 well-respected brands such as Worthington, IDP, Valtek, Limitorque, Durco and Edward
- **Develop and manufacture and repair precision-engineered flow control equipment for customer's critical processes**
  - Portfolio includes pumps, valves, seals and support systems, automation and aftermarket services supporting global infrastructure industries
  - Focused on oil & gas, power, chemical, water and general industries
- **Worldwide presence with approximately 18,000 employees**
  - 69 manufacturing facilities and 179 aftermarket Quick Response Centers (QRCs) with Flowserve employees in more than 50 countries
- **Long-term relationships with leading energy customers**
  - National and international oil & gas, chemical and power companies, engineering & construction firms, and global distributors
- **Established commitment to safety, customer service and quality with a strong ethical and compliance culture**



# Investment Highlights

- Focused flow control provider engaged primarily in energy infrastructure markets
- Diversified business model provides stability and foundation for earnings growth and cash flow generation
  - Broad portfolio of distinguished brand names that are well recognized in the industry
  - Over 10,000 customers globally buy our products and services, both directly and indirectly
  - Benefit from global geographic exposure and mix of industries served
  - Combination of short-cycle and large, late-cycle original equipment with strong recurring aftermarket
- Focus on operational excellence - margin expansion and cash flow improvement
- Experienced, shareholder focused leadership team - **“One Flowserve”**
- Growth pursued through innovation, expanding capabilities and strategic investments, primarily in emerging markets
- Disciplined capital allocation with emphasis on disciplined growth and returning value to the shareholder
- Leverage earnings power of improving operating platform

***Momentum building as operational improvements position us to capitalize on expected global energy infrastructure investment***

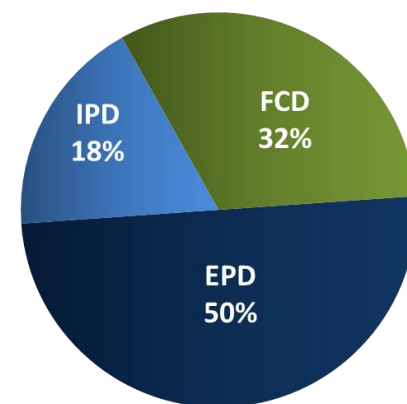
# Balanced Platform, Lower Risk, Stable Earnings & Positioned for Growth

*Flowserve has a diverse mix of products, end markets and geographic exposures which has provided earnings stability through the cycle and decreases the overall earnings risk profile*

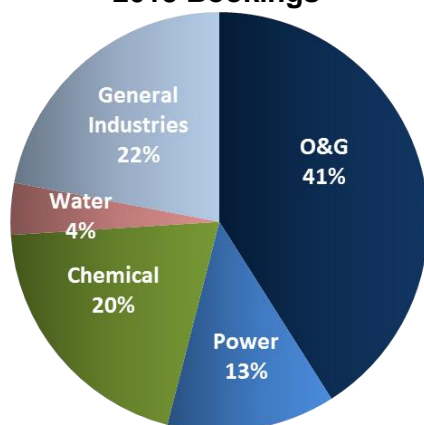
## Operating Segments

- Engineered Product Division (EPD) - highly-engineered pumps, seals and systems
- Industrial Product Division (IPD) - pre-configured pumps and systems
- Flow Control Division (FCD) - industrial valves and automation solutions

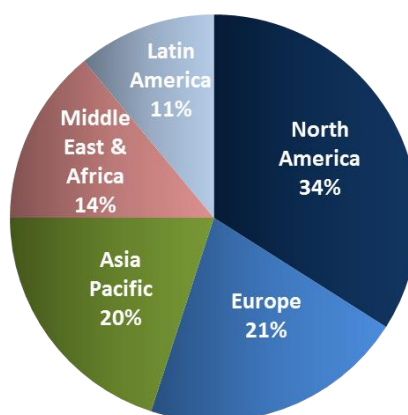
**Segment Breakdown**  
2013 Sales Mix



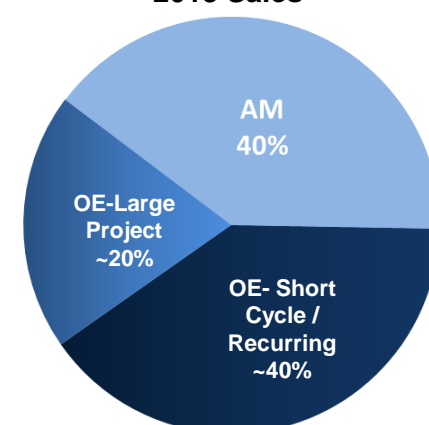
**Energy-focused End Markets**  
2013 Bookings



**Geographic Exposure**  
2013 Sales



**Diverse OE / AM Mix**  
2013 Sales



**Balanced flow control portfolio of products and aftermarket services provides diversification and reduces earnings risk profile**

# One Flowserve to Global Customers



## Common Customers



## Common Markets

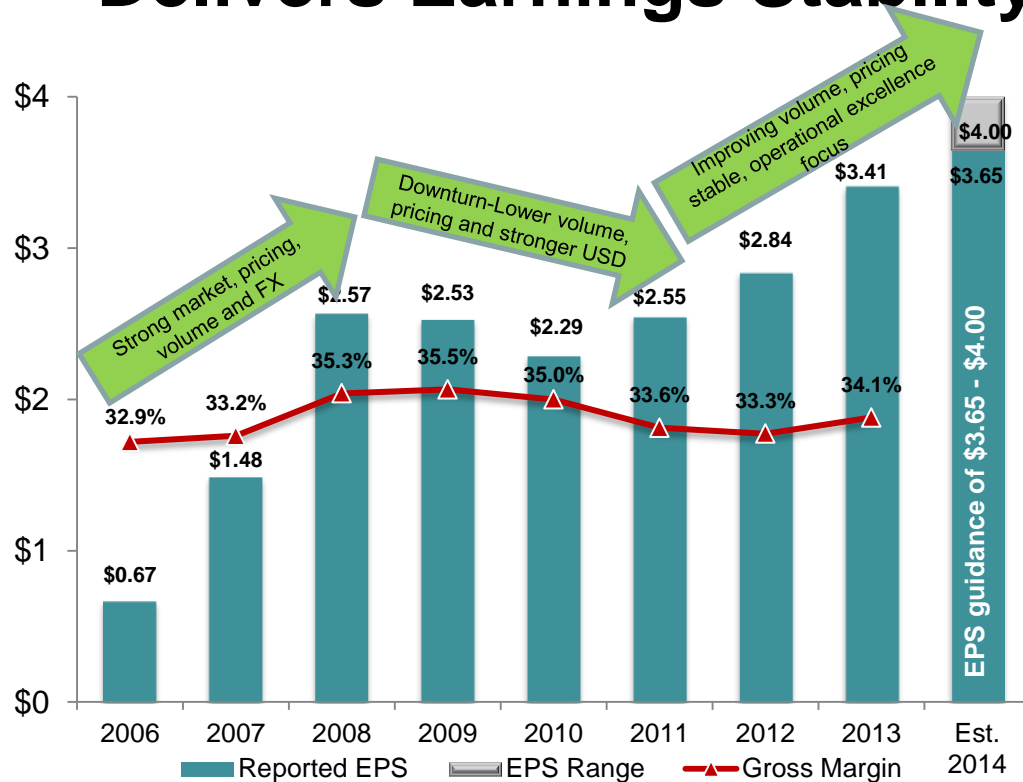


## Global Trends

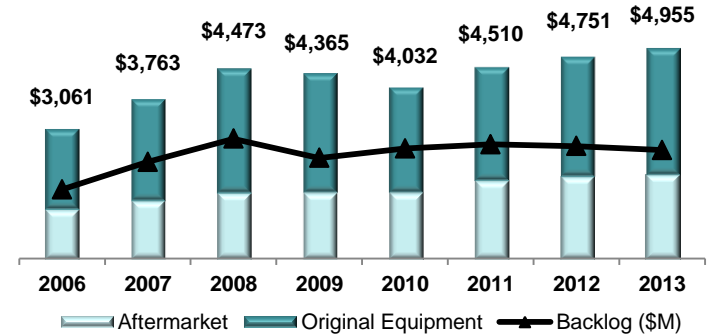
- Energy Efficiency
- Demographic Shifts
- Localization
- Life Cycle Cost
- Emerging Markets Capture
- Value Stream
- Aging Infrastructure
- Independence
- Economic Growth

***One Flowserve approach delivers full suite of original equipment and aftermarket products and services to meet customer needs***

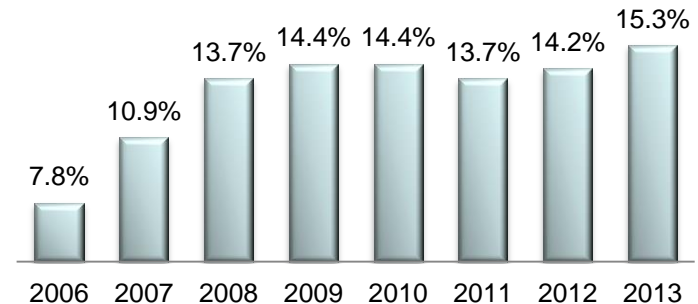
# Diverse Exposures and Disciplined Investment Delivers Earnings Stability and Supports Growth



Sales (\$M)



Operating Margin (%)



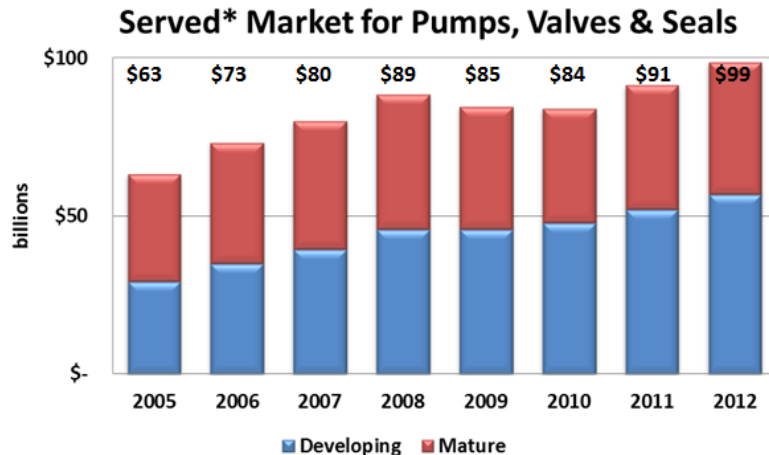
- Diversity provides stable earnings and margins through cycle, despite significant pricing impacts in the large OE business
- Aftermarket spend remains solid through challenging cycles and large project delays
  - Large OE projects are often subject to delays that can impact earnings, but typically represent only 20-25% of our business

***Stability through trough implies margin leverage potential***



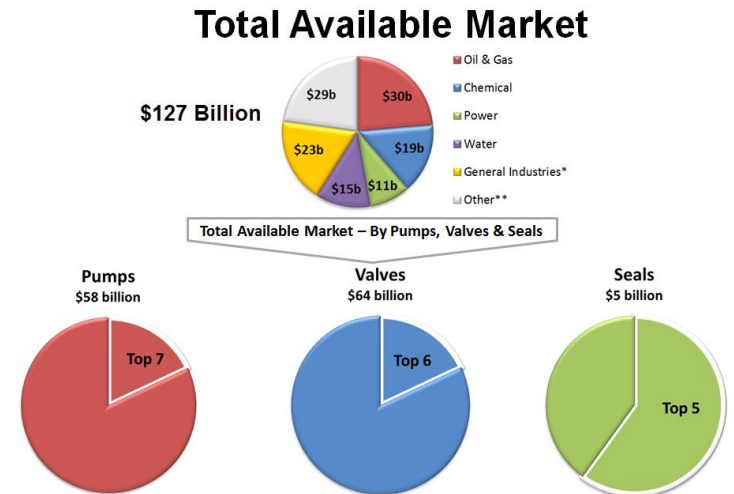
# Flowserve's Served Market

- Flowserve serves the market with a broad range of flow control products
- Flowserve's served markets represent approximately 75% of the total available market
- Pump, valve & seal spend is increasingly taking place in developing regions
- Developing markets accounted for about 58% of spend in 2012



Source: European Industrial Forecasting

\*Includes oil & gas, chemical, power, water & general industries; excludes building & construction, marine & other

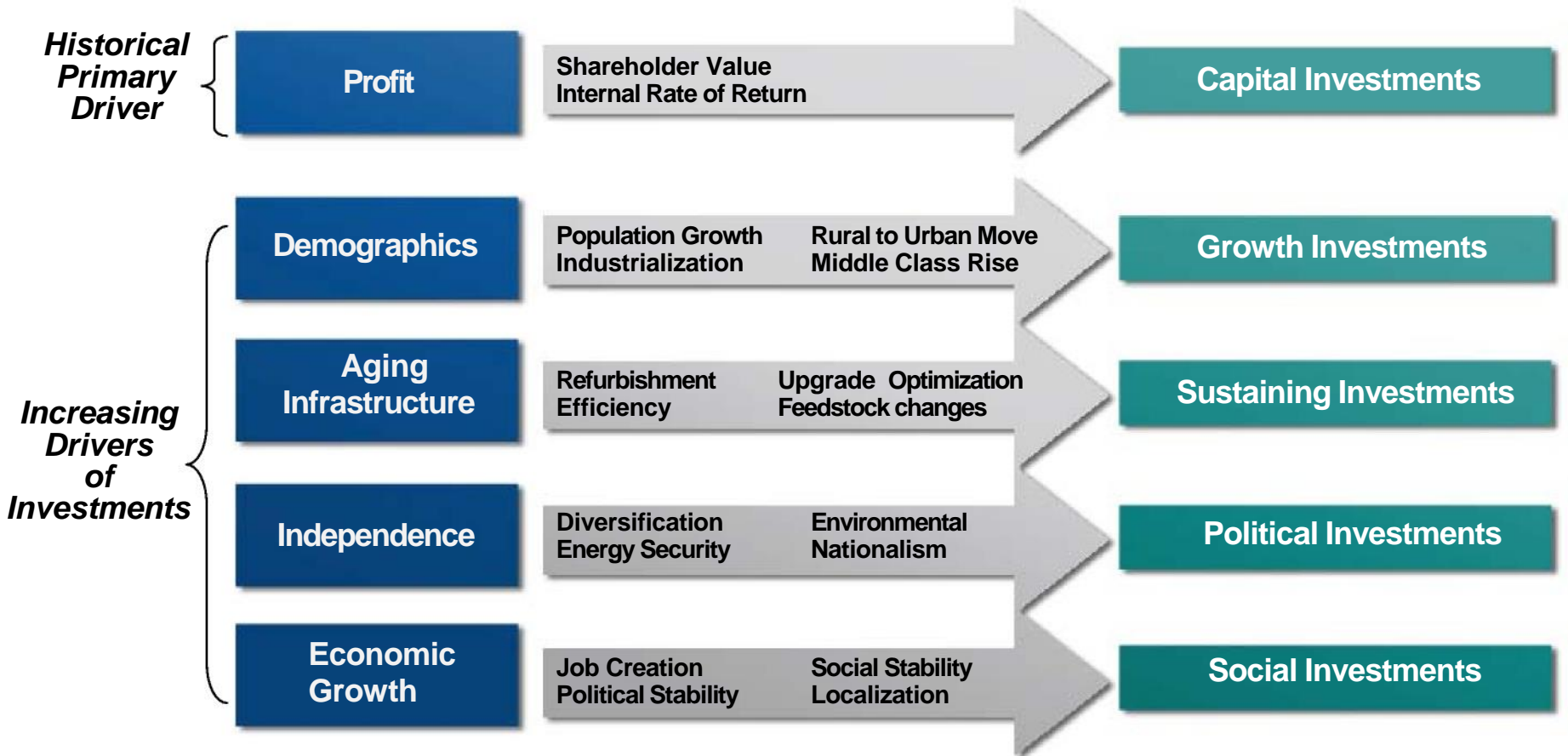


Source: European Industrial Forecasting, company reports and internal estimates; \*General Industries: Mining, Pulp & Paper and Food & Beverage; \*\*Other: Building & Construction, Marine and other

***Pump, valve & seal spend shifting toward developing markets, but significant opportunities found in both developing & mature regions***



# Long Cycle Infrastructure Investment Drivers



***Motivation for infrastructure investments now reflect other critical drivers***

# Attributes of Products / Services

- **Broad portfolio of flow control products**
- **The product must work when put into critical services**
  - Nuclear Plants
  - Refineries
  - Transmission Lines
  - Chemical Plants, etc.
- **On-Time Delivery is critical to meet schedules**
- **Aftermarket Services Life-Cycle is 40-50 years**
  - Localized presence
  - Upgrades and re-rates
  - History of service
  - Break-fix
  - Condition-based maintenance

*24" Main Steam  
Isolation Valve*



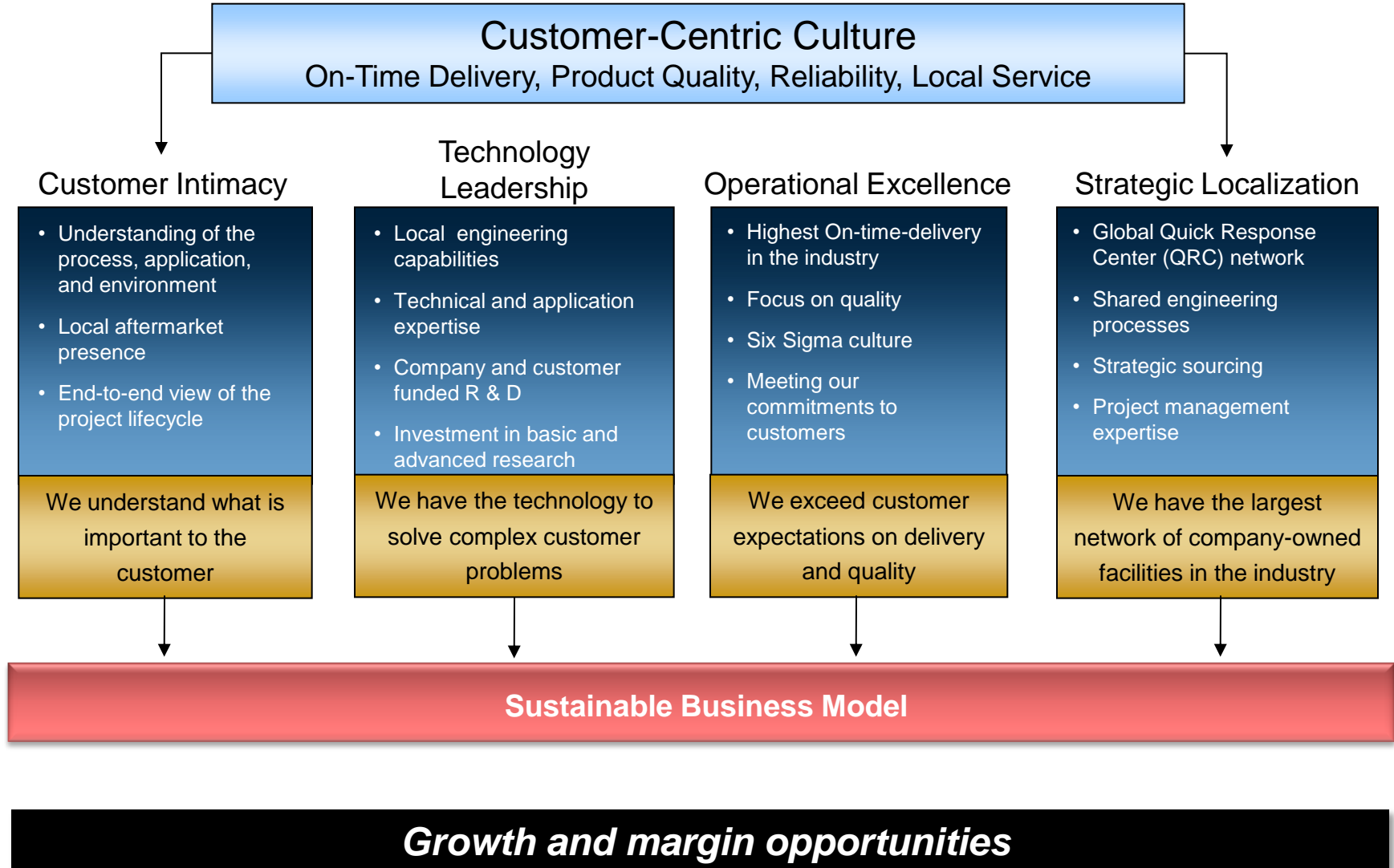
*WCC Multistage  
Barrel Pump*



*ISC2 Mechanical  
Seal*

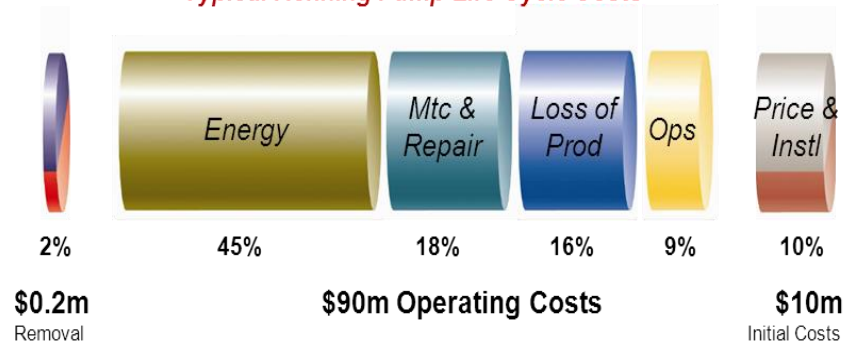
***Providing the right product at the right time for the most critical applications***

# The Flowserve Difference



# Customer Intimacy Provides Aftermarket Opportunities

*Typical Refining Pump Life Cycle Costs*

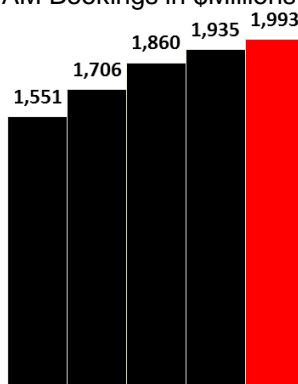


End user customers typically experience approximately 9 times the initial purchase and installation costs over the equipment's operating life

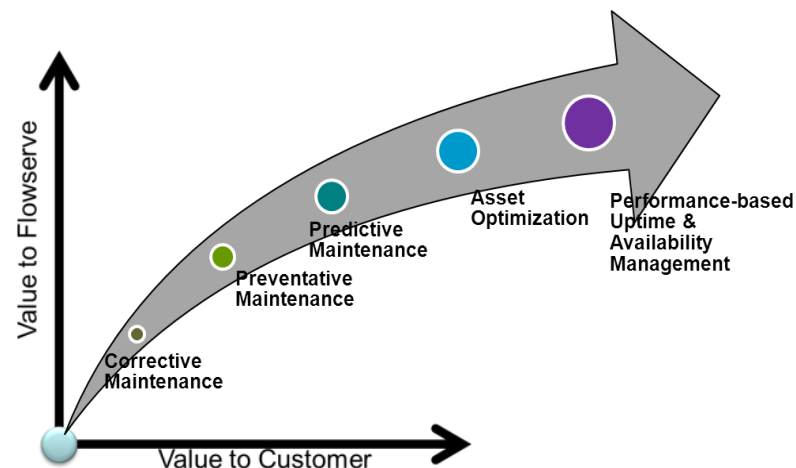
End user customers vary in maintenance philosophies

2009 – 2013 AM CAGR = 6.5%

AM Bookings in \$Millions



■ 2009 ■ 2010 ■ 2011 ■ 2012 ■ 2013

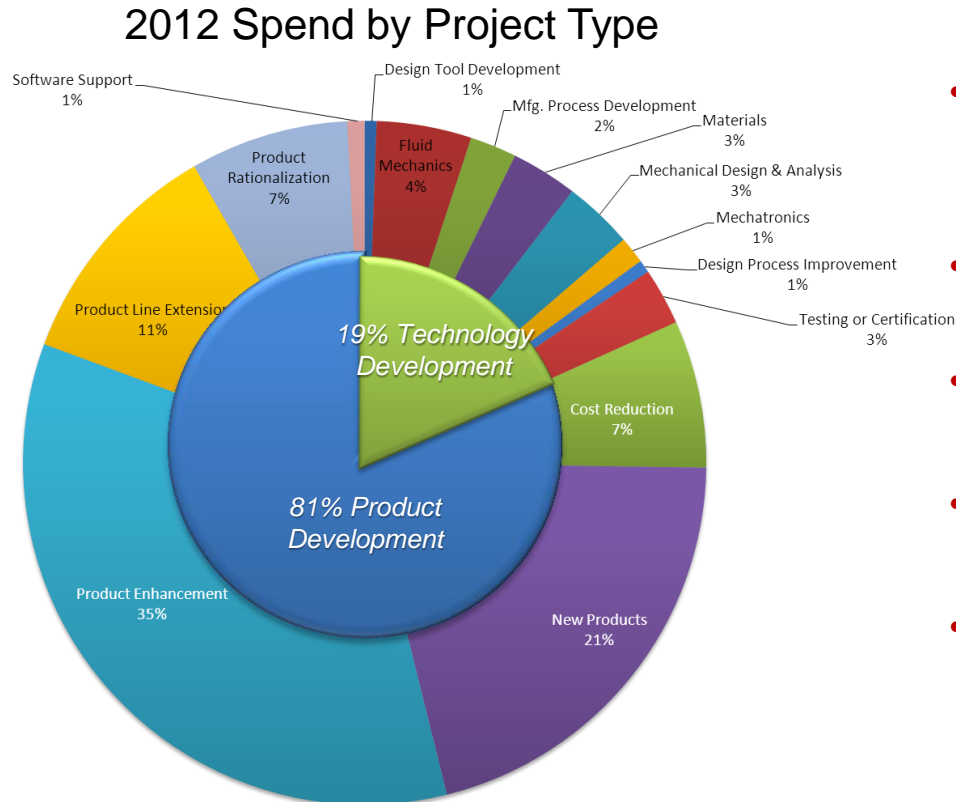


FLS Services & Solutions business drives aftermarket growth

**Leveraging large projects, run rate and aftermarket opportunities over the 40 to 50 year life cycle**

# Technology Leadership

## Focus on Research and Development



- Enhanced standards compliance
- New Product Development
- Advanced Materials
- Product Cost Reduction
- Customer co-funded development

***A balanced approach between basic research, applied product development, and customer co-funded development keeps us a leader of the industry***

# Focused on Key Metrics and Processes

## Supply Chain



## Quality



**obvious  
failure  
costs**

**hidden  
failure  
costs**

Focus	KPI
Working Capital	Inventory Turns
	Days Payable Outstanding
Material Cost	Delivered net cost savings YOY
	Low Cost Sourcing
Delivery	Supplier OTD%
	Intercompany OTD
Supplier Quality	Supplier COPQ

## Customer Focus Initiative...

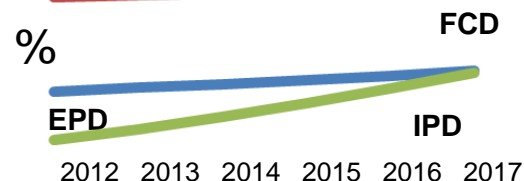
**Serve.** It's in everything we do.

RESPONSIVE	QUALITY	ON TIME	OWNERSHIP
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**FLOWSERVE** Experience In Motion



**Low Cost Sourcing Spend**  
(% of total spend)



**Strategic initiatives aligned to deliver KPI's**



# Strategic Localization: Key to Accelerated Growth

**Brazil**  
**Russia**  
**India**  
**China**  
**Middle East**

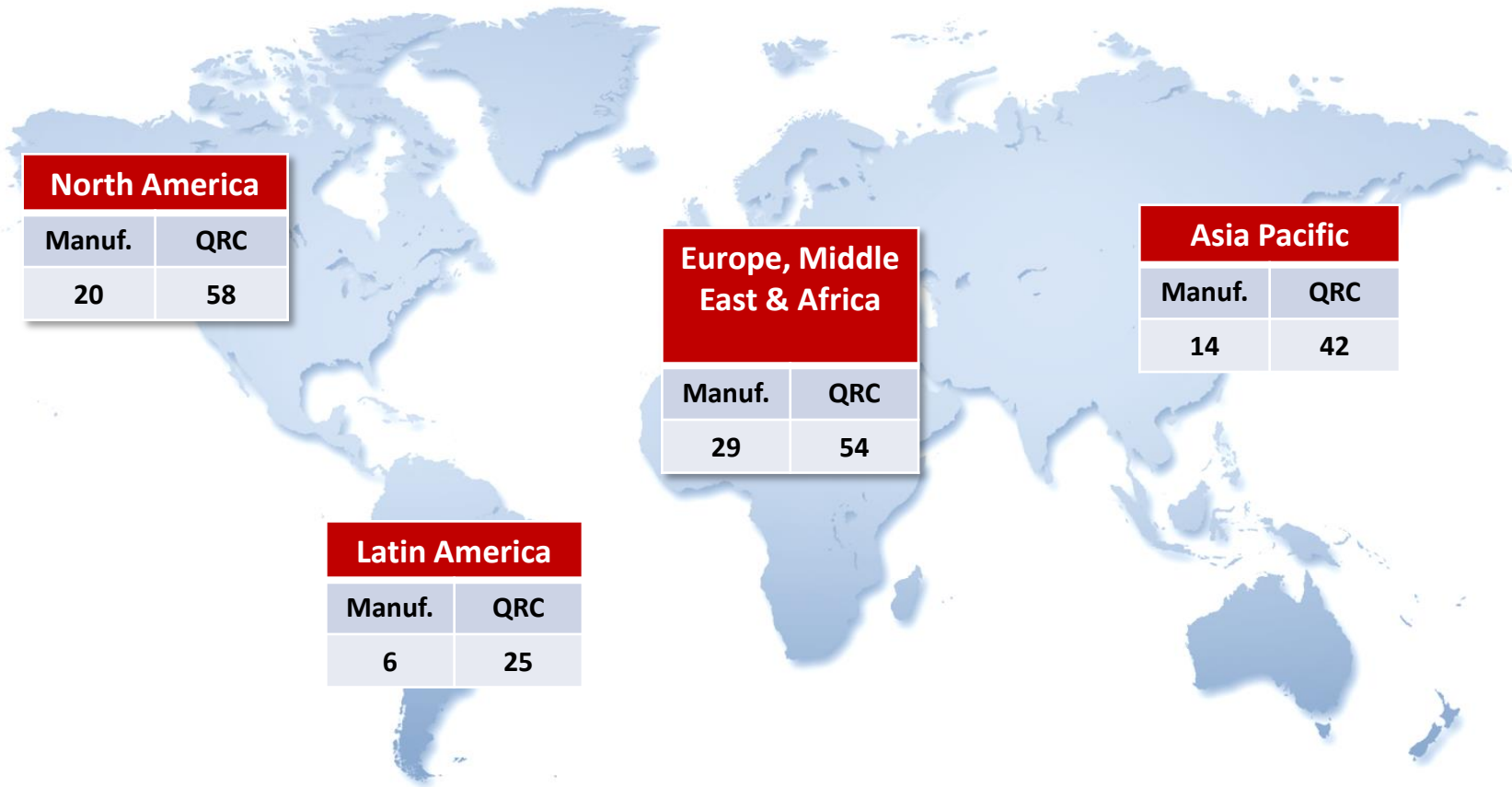


Focus Areas	Enablers	Key Initiatives
Product Localization	LPO/SPO Execution	Suzhou, Coimbatore, Rio, Santa Clara, Al Rushaid
Global Aftermarket	QRC Networks	Expanded and new QRC's (Russia, China, India, Africa)
Manufacturing Footprint	Facility Capital Investment	Coimbatore, Suzhou, Rio manufacturing expansions
Regional Technical Skill Development	Talent Acquisition, Training and Retention	Localized employee training programs
Low Cost Sourcing	Supply Chain Development	China and India Sourcing Programs

***Building local capabilities is foundational to our global plan***



# Strategically Located FLS Footprint

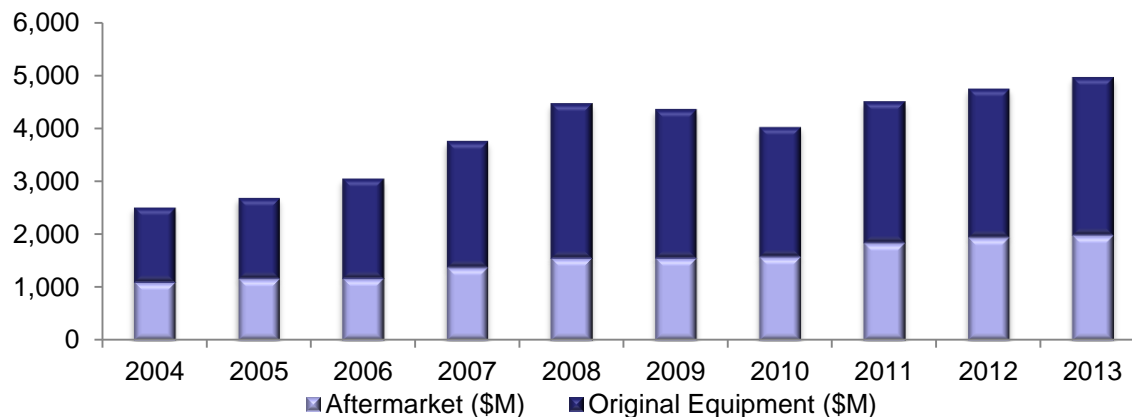


**Structured for Growth**  
**69 Manufacturing / 179 QRC Sites Globally**

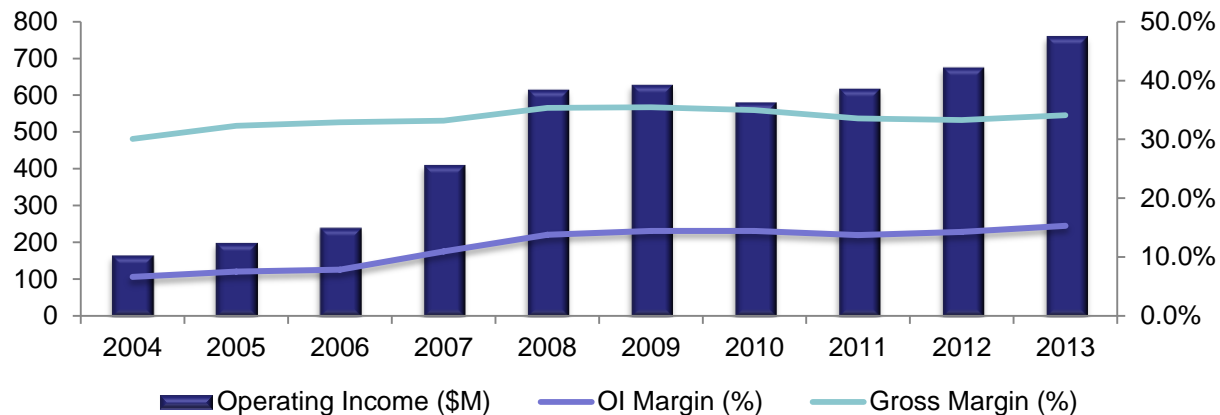
\*Excludes non-consolidated JV operations

# Strong Annual Financial Performance

## Sales



## Operating Results

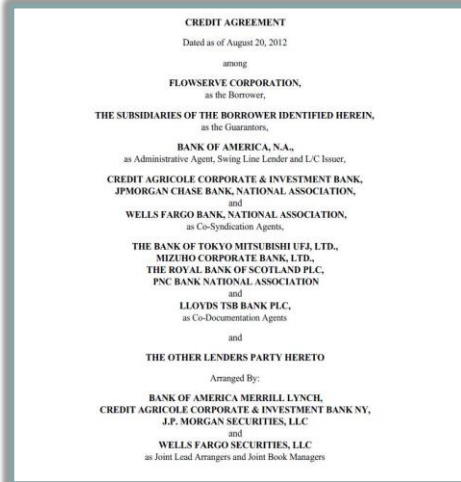


# Progress on Capital Structure

- Upgraded to “investment grade” by all major rating agencies in 2012, and were further upgraded by Moody’s and Fitch in 2013 to Baa2 and BBB, respectively

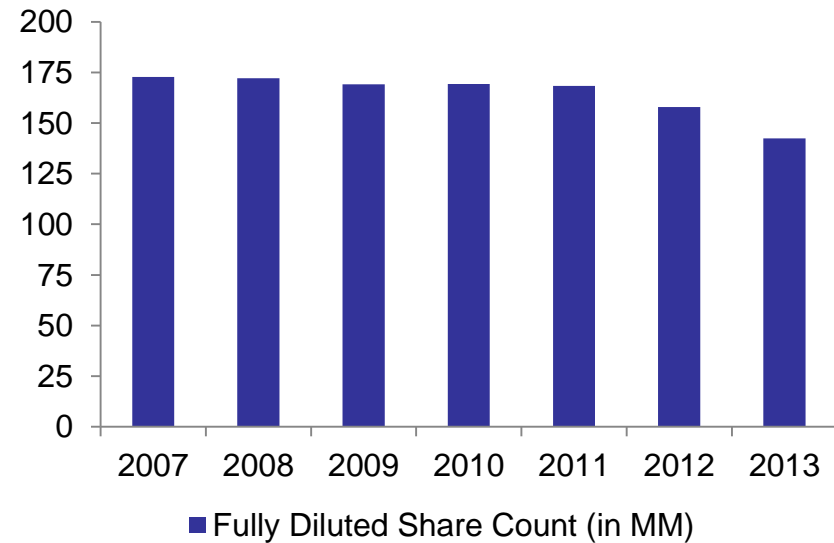
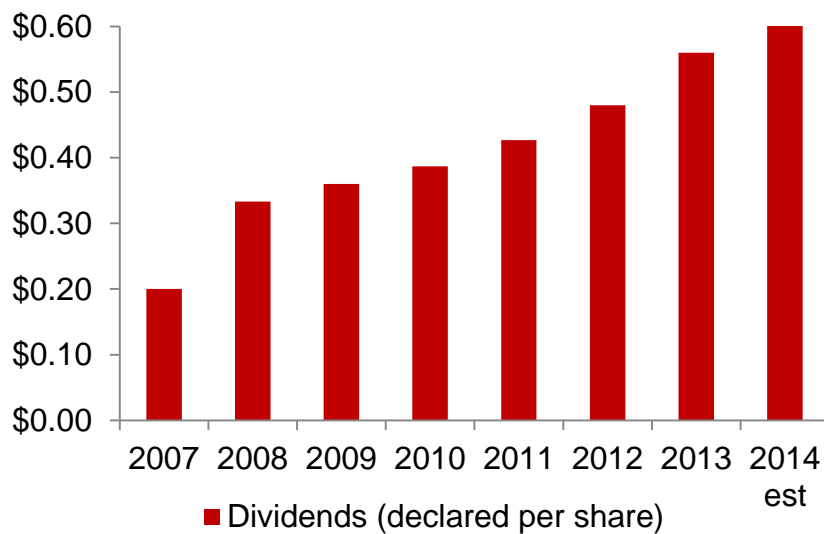


- Completed new \$1.25 billion, 5-year credit facility in 2012
  - Recently increased revolver capacity from \$850 million to \$1 billion and extended term to 2018
- Issued \$500 million of 10-year, 3.5% senior notes in 2012
  - In October 2013 completed \$300 million offering of 10-year, 4.00% senior notes
- Returned nearly \$850 million to shareholders during the year 2012, including \$300 million ASR program; returned \$535 million in 2013
- Year-end leverage of 1.2x EBITDA; at low end of 1-to-2x target
- Dividend increase of 14.3% to 16 cents per quarter in February 2014
- Completion of \$1 billion share repurchase plan in 1H13
  - Afterwards, resumed policy of returning 40-50% of 2-year average net income through share repurchases and dividends



# Consistent Returns to Shareholders \*

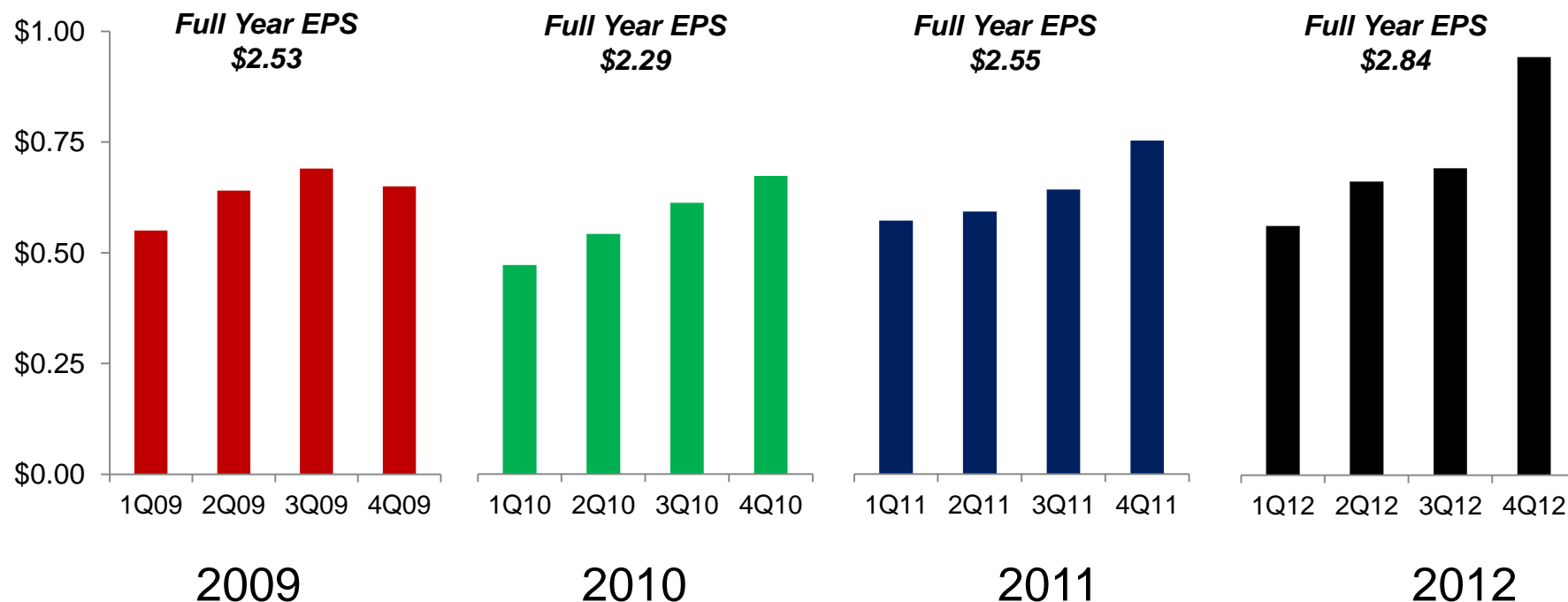
- Annual declared dividends increased 220% to the anticipated \$0.64 per share in 2014 from \$0.20 per share in 2007
- Reduced total diluted share count by nearly 16% since 2005



\* Dividends and share count adjusted to reflect 3-for-1 stock split effective June 21, 2013

# EPS Seasonally Second-Half Weighted \*

(Quarterly Earnings Per Share - diluted)



***Earnings continue to be seasonal, but as aftermarket and run-rate business has grown, we are see a “level loading” of our business***

\* EPS and share count adjusted to reflect 3-for-1 stock split effective June 21, 2013

# 2013 Milestones

- Improved operational execution including success of ***One Flowserve*** strategies combined with disciplined cost culture delivered impressive leverage and flow through
  - Committed customer focus and increased operating efficiency improved our capacity to meet customer requirements, reduce lead times and positions us well to capture expected large project activity
  - Internal focus over recent years improved capability to efficiently integrate and leverage bolt-on acquisitions like Innomag across our manufacturing and QRC footprint
  - Constant focus on cost structure drives quick return realignment initiatives
- Processes embedded to ensure disciplined project pursuit will continue driving backlog quality and profitable growth
- Diverse end market and geographic exposures continue to dampen risk and volatility as improved project activity is anticipated, particularly in North America
- Focus on return on assets drives asset portfolio optimization and return for shareholders

# 2014 Guidance Range

<b>2014 EPS <sup>1</sup></b>	<b>\$3.65 – \$4.00</b>
<b>Revenue Growth</b>	<b>3 – 6%</b>
<b>Tax Rate</b>	<b>~30%</b>
<b>Capital Expenditures</b>	<b>\$130 – \$140M</b>
<b>Pension Contributions</b>	<b>~\$33M</b>
<b><i>Longer Term Guidance:</i></b>	
<b>1-2 Year Operating Margin Improvement (from 2012 levels)</b>	<b>100 – 200 bps</b>
<b>SG&amp;A as a Percent of Sales</b>	<b>18%</b>

<sup>1</sup> As of February 19, 2014



# Disciplined Profitable Growth and Long Term Shareholder Value Creation

- Unified, “***One Flowserve***” leadership drives disciplined growth and operational excellence across platform
- Demonstrated growth and stable earnings, through the cycle, is a result of our diversity: products, services and geographic exposures
- Business model focused upon:
  - Disciplined approach to top-line growth – organic & bolt-on acquisitions
  - Cost control – both in COGS and SG&A
  - Driving significant margin opportunities and realizing propensity of this business
  - Enhanced by consistent capital allocation policy
  - Delivers powerful EPS potential
- Flowserve is committed to creating shareholder value

## Flowserve Investor Relations Contacts:

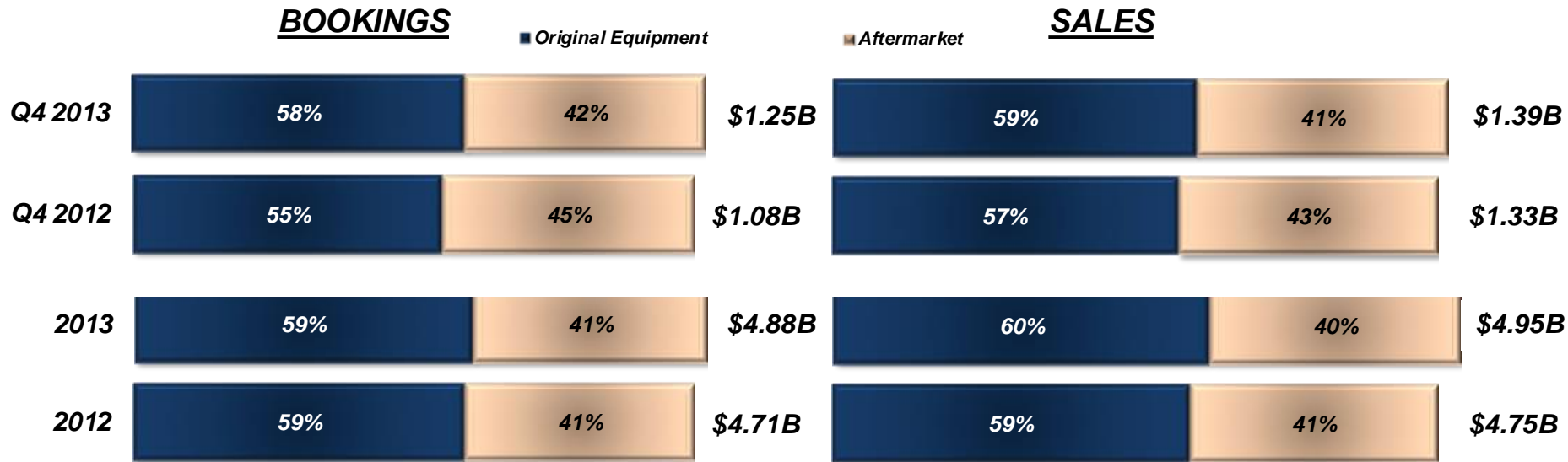
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# APPENDIX

# 2013 Consolidated Bookings & Sales



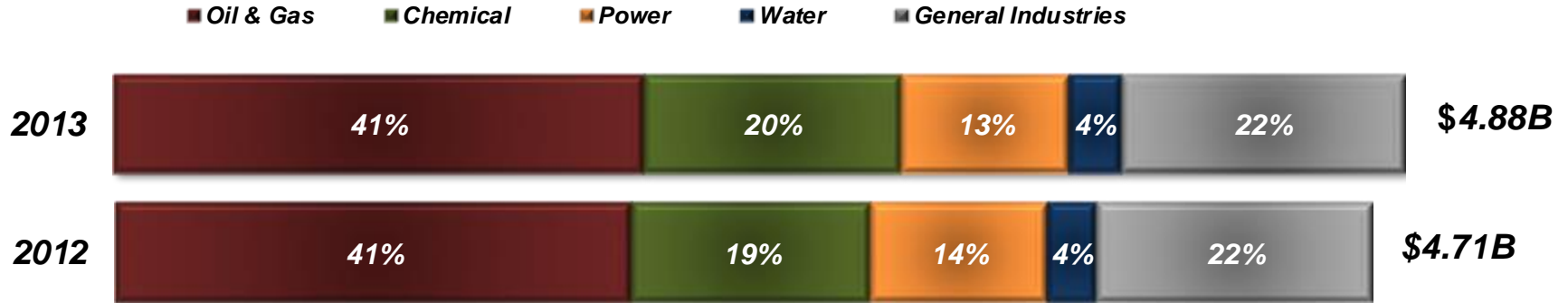
## Bookings

- Bookings in Q4 2013 increased 15.7%, or 17.1% on a constant currency basis, driven by the oil and gas, general industries, chemical and water markets – Regional growth was broad-based, with particular strength in Asia Pacific
  - Record aftermarket bookings of \$531 million

## Sales

- Sales in Q4 2013 increased 4.6%, or 5.2% on a constant currency basis, driven by increased OE sales across all segments – Regional growth driven by strength in Asia Pacific, Latin America and North America

# 2013 Bookings & Industry Outlook



## OIL & GAS

- ✓ Stable market with price levels that encourage investment; recent signs of a shift in some upstream capital expenditures
- ✓ New refining capacity additions in the Middle East and BRIC countries; growing preference for cleaner fuels also spurs investment
- ✓ Continued focus on North American unconventional resources with opportunities upstream, midstream and downstream

## POWER

- ✓ New coal-fired power capacity concentrated in China and India with gas-fired and renewables in North America, Western Europe and the Middle East
- ✓ Favorable long-term nuclear prospects, but new capacity coming online by 2018 down; new nuclear opportunities primarily in developing markets
- ✓ Solar thermal is a small but rapidly growing market; opportunities exist in Europe, the Middle East and U.S.

## CHEMICAL

- ✓ Positive chemical outlook given future demand in emerging markets and improvements in U.S. and European economies
- ✓ Most new chemical capacity additions in the Middle East and BRIC countries; North America also an important market due to low-cost feedstock

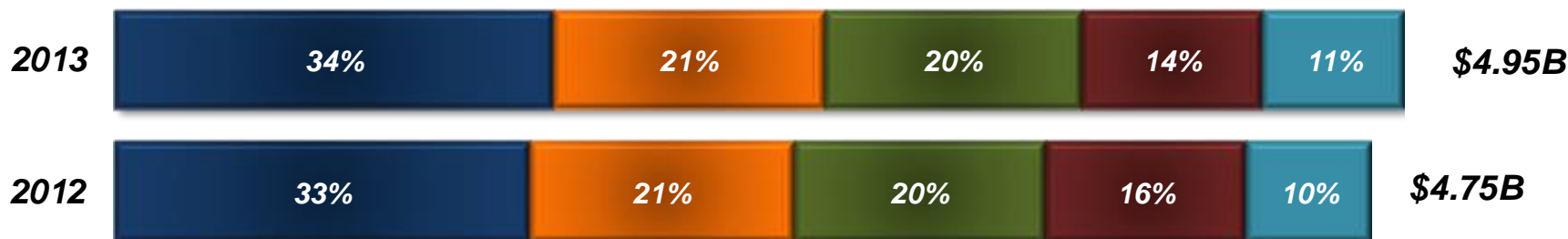
## GENERAL INDUSTRIES

- ✓ New mining project spending under pressure, but good levels of activity in parts of Latin America, North America and elsewhere
- ✓ Encouraging signs in desalination market; new plant orders are expected to rise over the next five years

**Sources:** GlobalData, Industrial Info Resources, American Chemistry Council, Global Water Intelligence, ITR Economics, IMF, Flowserve internal data

# 2013 Sales & Regional Outlook

■ North America ■ Europe ■ Asia-Pacific ■ Middle East & Africa ■ Latin America



## NORTH AMERICA

- ✓ Unconventional oil and gas activity resulting in strong pipeline, storage and NGL spend; development of LNG export terminals continues
- ✓ Petrochemical segment gains momentum with several recent new project announcements in ethylene and derivatives plants
- ✓ Economic and environmental factors support renewables and natural gas for conversions, and new combined-cycle plants at expense of coal plant closures

## EUROPE

- ✓ Western Europe seeing nascent economic recovery and growing customer activity levels in select market segments
- ✓ Eastern Europe and Russia account for a large share of the region's investment in refining, pipelines, chemicals and nuclear power

## MIDDLE EAST

- ✓ Numerous opportunities in oil and gas upstream and downstream, particularly in the Persian Gulf states
- ✓ Robust activity for power generation, desalination and water infrastructure to support economic development

## ASIA PACIFIC

- ✓ Continued strength in oil and gas and power market opportunities expected as region's economies advance
- ✓ About half of global chemical capacity additions planned for China, India and other Asia Pacific countries over next five years

## LATIN AMERICA

- ✓ Both Brazil deep water oil and gas and Mexico's proposed energy reforms promising for growth in the region
- ✓ Latin America a key mining market, particularly new copper production; mining-related desalination activity on the rise

# Q4 & Full Year 2013 - Consolidated Financial Results

(\$ millions)	4th Quarter					Full Year				
	2013	2012	Delta (\$)	Delta (%)	Constant FX (%)*	2013	2012	Delta (\$)	Delta (%)	Constant FX (%)*
<b>Bookings</b>	\$ 1,252.6	\$ 1,082.5	\$ 170.1	15.7%	17.1%	\$ 4,881.4	\$ 4,713.5	\$ 167.9	3.6%	4.2%
<b>Sales</b>	\$ 1,389.4	\$ 1,328.2	\$ 61.2	4.6%	5.2%	\$ 4,954.6	\$ 4,751.3	\$ 203.3	4.3%	5.0%
<b>Gross Profit</b>	\$ 470.5	\$ 447.6	\$ 22.9	5.1%		\$ 1,688.1	\$ 1,581.0	\$ 107.1	6.8%	
<b>Gross Margin (%)</b>	33.9%	33.7%		20 bps		34.1%	33.3%		80 bps	
<b>SG&amp;A</b>	\$ 260.6	\$ 248.5	\$ 12.1	4.9%	5.3%	\$ 966.8	\$ 922.1	\$ 44.7	4.8%	5.4%
<b>SG&amp;A (%)</b>	18.8%	18.7%		10 bps		19.5%	19.4%		10 bps	
<b>Income from Affiliates</b>	\$ 3.0	\$ 3.7	\$ (0.7)	(18.9%)		\$ 39.0	\$ 17.0	\$ 22.0	129.4%	
<b>Operating Income</b>	\$ 212.9	\$ 202.8	\$ 10.1	5.0%	7.0%	\$ 760.3	\$ 675.8	\$ 84.5	12.5%	14.3%
<b>Operating Margin (%)</b>	15.3%	15.3%		0 bps		15.3%	14.2%		110 bps	
<b>Other (Expense) / Income, net**</b>	\$ (5.6)	\$ 0.5	\$ (6.1)	(1220.0%)		\$ (14.3)	\$ (21.6)	\$ 7.3	33.8%	
<b>Tax Expense</b>	\$ 49.7	\$ 47.9	\$ 1.8	3.8%		\$ 204.7	\$ 160.8	\$ 43.9	27.3%	
<b>Net Earnings</b>	\$ 141.1	\$ 141.6	\$ (0.5)	(0.4%)		\$ 485.5	\$ 448.3	\$ 37.2	8.3%	
<b>Diluted EPS</b>	\$ 1.01	\$ 0.94	\$ 0.07	7.4%		\$ 3.41	\$ 2.84	\$ 0.57	20.1%	

- Fourth quarter diluted EPS calculated using fully diluted shares of 140.1 million and 150.1 million shares in Q4 2013 and Q4 2012, respectively

- Flowserve repurchased 8,142,723 and 18,638,340 shares in full year 2013 and 2012, respectively

\* Constant FX represents the year over year variance assuming 2013 results at 2012 FX rates

\*\* Full Year 2013 includes \$12.6 million impact of losses arising from transactions in currencies other than our sites' functional currencies and impact of foreign exchange contracts vs. a loss of \$21.3 million Full Year 2012



# Q4 & Full Year 2013 Cash Flows

(\$ millions)	Q4	Q3	Q2	Q1	Full Year	
	2013	2013	2013	2013	2013	2012
Net Income	\$ 141	\$ 127	\$ 121	\$ 99	\$ 488	\$ 451
Depreciation and amortization	27	27	27	25	106	107
Change in working capital	176	3	(77)	(212)	(110)	(4)
Other	34	(15)	5	(20)	4	(37)
<b>Total Operating Activities</b>	<b>378</b>	<b>142</b>	<b>76</b>	<b>(108)</b>	<b>488</b>	<b>517</b>
Capital expenditures	(44)	(34)	(27)	(34)	(139)	(136)
Acquisitions, dispositions and other	(66)	1	0	36	(29)	10
<b>Total Investing Activities</b>	<b>(110)</b>	<b>(33)</b>	<b>(27)</b>	<b>2</b>	<b>(168)</b>	<b>(126)</b>
Proceeds of / (payments on) long-term debt	285	(5)	(5)	(5)	270	408
Dividends	(19)	(20)	(20)	(18)	(77)	(74)
Short-term financing and other, net	(197)	(12)	64	154	9	9
Repurchase of common shares	(88)	(64)	(150)	(156)	(458)	(772)
<b>Total Financing Activities</b>	<b>(19)</b>	<b>(101)</b>	<b>(111)</b>	<b>(25)</b>	<b>(256)</b>	<b>(429)</b>
<b>Effect of exchange rates</b>	<b>1</b>	<b>1</b>	<b>(2)</b>	<b>(4)</b>	<b>(4)</b>	<b>5</b>
<b>Net Increase in Cash</b>	<b>\$ 250</b>	<b>\$ 9</b>	<b>\$ (65)</b>	<b>\$ (135)</b>	<b>\$ 60</b>	<b>\$ (33)</b>

***Flexibility to follow announced policy to annually return 40-50% of average trailing two-year net earnings to shareholders while supporting strategic initiatives to grow the business***