

Flowserve Corporation

Recommendation **HOLD** ★★☆☆☆

Price
USD 46.68 (as of Jan 31, 2020 4:00 PM ET)

12-Mo. Target Price
USD 51.00

Report Currency
USD

Investment Style
Mid-Cap Value

Equity Analyst Elizabeth Vermillion

GICS Sector Industrials

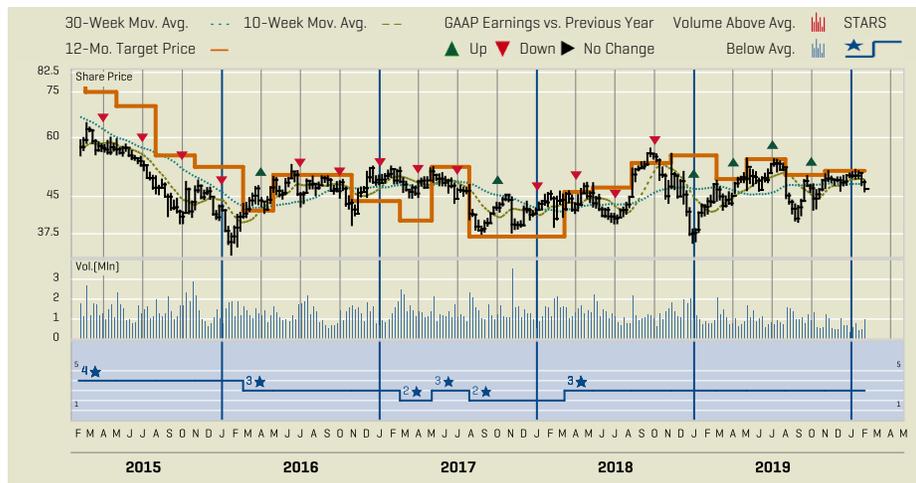
Sub-Industry Industrial Machinery

Summary This company is a global manufacturer of industrial pumps and related equipment for the chemical, oil & gas, and power industries.

Key Stock Statistics (Source: CFRA, S&P Global Market Intelligence (SPGMI), Company Reports)

| | | | | | | | |
|--------------------------|--------------------------|--------------------------|-----------------|-----------------------------|------------------|-------------------------|-------------|
| 52-Wk Range | USD 54.16 - 39.75 | Oper. EPS 2019E | USD 2.20 | Market Capitalization(B) | USD 6.109 | Beta | 1.71 |
| Trailing 12-Month EPS | USD 1.88 | Oper. EPS 2020E | USD 2.53 | Yield (%) | 1.63 | 3-Yr Proj. EPS CAGR[%] | 15 |
| Trailing 12-Month P/E | 24.83 | P/E on Oper. EPS 2019E | 21.22 | Dividend Rate/Share | USD 0.76 | SPGMI's Quality Ranking | B |
| \$10K Invested 5 Yrs Ago | \$9,299 | Common Shares Outstg.(M) | 130.86 | Institutional Ownership [%] | 100 | | |

Price Performance



Source: CFRA, S&P Global Market Intelligence

Past performance is not an indication of future performance and should not be relied upon as such.

Analysis prepared by Equity Analyst Elizabeth Vermillion on Nov 22, 2019 10:55 AM, when the stock traded at USD 48.44.

Highlights

- ▶ We expect sales growth of 3%-3.5% in 2019 and 4.5%-5% in 2020 aided by late-cycle project activity and aftermarket sales. A change in regulation for refined shipping fuels should support bookings for large OEM's in the refinery space in coming quarters. Aftermarket bookings, down slightly in Q3, remain strong overall, indicating future growth. We note that new accounting standards have helped mute some typical quarterly seasonality. We expect moderating consumer spending to lead to slightly lower sales growth in 2020.
- ▶ We expect 150 bps of gross margin expansion to 33.8% in 2019 and down 20 bps to 33.6% in 2020, aided by improvements in issues from low-margin past-due backlog. We see 2019 EBITDA margin rising 150 bps to 14.2% and 80 bps to 15.0% in 2020. FLS is focusing on optimizing facilities and cutting SG&A costs to help offset headwinds.
- ▶ FLS is a late-cycle beneficiary and end markets are showing some indications of upward inflection, but company-specific inefficiencies weigh negatively on earnings potential. After net debt-to-trailing EBITDA of 1.8x in 2018, we forecast 1.x-2.0x in 2019. FLS repaid \$105 million of long-term debt year-to-date.

Investment Rationale/Risk

- ▶ Our Hold opinion reflects our anticipation that realignment efforts [and reductions in overall industry capacity] will set FLS up for strong incremental margins in the up-cycle we see picking up in early 2020. The near-term outlook is improving as bookings grew in all chemical and water end markets. Realignment activities are winding down and we expect a realignment expense of \$50 million in 2019 as realignment work winds down. Low margin, past due backlog has declined significantly, and we expect minimal impact to margin in 2020. Oil and gas markets remain challenged, especially in North America, due to upstream spending discipline which impacts activity.
- ▶ Risks to our recommendation and target include significant new project approvals; lower-than-expected cost inflation; less competitive pricing pressures; and positive foreign exchange effects from a weaker-than-expected U.S. dollar.
- ▶ Our 12-month target is \$51, 20.2x our 2020 EPS estimate, in the middle of FLS's five-year average and above peers' forward average of 16.7x due to our outlook for growth from late-cycle project activity with sizable upside potential later in the capital spending cycle.

Analyst's Risk Assessment

| | | |
|------------|---------------|-------------|
| LOW | MEDIUM | HIGH |
|------------|---------------|-------------|

Our risk assessment reflects the company's exposure to cyclical end markets and foreign exchange swings, offset by its leading position in many markets, significant aftermarket business, strong cash flows and favorable leverage.

Revenue/Earnings Data

| Revenue (Million USD) | 1Q | 2Q | 3Q | 4Q | Year |
|-----------------------|-------|-------|-------|-------|-------|
| 2019 | 890 | 990 | 997 | -- | -- |
| 2018 | 920 | 973 | 953 | 987 | 3,833 |
| 2017 | 866 | 877 | 883 | 1,034 | 3,661 |
| 2016 | 946 | 1,027 | 946 | 1,071 | 3,990 |
| 2015 | 1,015 | 1,162 | 1,096 | 1,284 | 4,558 |
| 2014 | 1,068 | 1,224 | 1,204 | 1,381 | 4,878 |

Earnings Per Share (USD)

| | 1Q | 2Q | 3Q | 4Q | Year |
|------|---------------|---------------|---------------|---------------|---------------|
| 2020 | E 0.49 | E 0.59 | E 0.67 | E 0.78 | E 2.53 |
| 2019 | 0.44 | 0.44 | 0.52 | E 0.66 | E 2.20 |
| 2018 | 0.12 | 0.10 | 0.21 | 0.48 | 0.91 |
| 2017 | 0.15 | 0.32 | 0.36 | -0.81 | 0.02 |
| 2016 | 0.26 | 0.42 | -0.12 | 0.46 | 1.01 |
| 2015 | 0.20 | 0.56 | 0.70 | 0.47 | 1.93 |

Fiscal year ended Dec 31. Next earnings report expected: Mid Feb. EPS Estimates based on CFRA's Operating Earnings; historical GAAP earnings are as reported in Company reports.

Dividend Data

| Amount (USD) | Date Decl. | Ex-Div. Date | Stk. of Record | Payment Date |
|--------------|------------|--------------|----------------|--------------|
| 0.19 | Dec 13 | Dec 26 | Dec 27 | Jan 10 '20 |
| 0.19 | Aug 21 | Sep 19 | Sep 20 | Oct 04 '19 |
| 0.19 | May 23 | Jun 20 | Jun 21 | Jul 05 '19 |
| 0.19 | Mar 07 | Mar 28 | Mar 29 | Apr 12 '19 |

Dividends have been paid since 2007. Source: Company reports.

Past performance is not an indication of future performance and should not be relied upon as such.

Forecasts are not reliable indicator of future performance.

Flowserve Corporation**Business Summary** November 22, 2019

CORPORATE OVERVIEW. Flowserve Corp. [FLS], which was formed through the 1997 merger of Durco International Inc. and BW/IP, Inc., is one of the world's leading providers of fluid motion and control products and services. Customers use fluid motion and control products to regulate the movement of liquids or gases through processing systems in their facilities. FLS develops and manufactures precision-engineered flow control equipment integral to the movement, control and protection of the flow of materials in critical processes of FLS's customers. FLS's product portfolio of pumps, valves, seals, automation and aftermarket services supports global infrastructure industries, including oil and gas, chemical, power generation (including nuclear, fossil and renewable) and water management as well as certain general industrial markets where FLS products and services add value. Through FLS's manufacturing platform and global network of Quick Response Centers, the company offers a broad array of aftermarket equipment services, such as installation, advanced diagnostics, repair and retrofitting.

FLS conducts its operations through three business segments based on type of product and how the company manages the business: Engineered Product Division (EPD) for long lead time, custom and other highly-engineered pumps and pump systems, mechanical seals, auxiliary systems and replacement parts and related services; Industrial Product Division (IPD) for pre-configured engineered pumps and pump systems and related products and services; and Flow Control Division (FCD) for engineered and industrial valves, control valves, actuators and controls and related services.

Principal markets for the company's products are oil & gas (38% of bookings in 2018), general industrial (25%), chemical (22%), power generation (11%) and water treatment (4%). On a geographic basis, 2018 revenue was as follows: North America 40%; Europe, Middle East and Africa 37%; Asia Pacific 14%; and Other 9%.

CORPORATE STRATEGY. To enhance its global position as a product and integrated solutions provider in the flow control industry, the company pursues organic growth; emerging market expansion; operational excellence; portfolio management and strategic acquisitions; and enhanced organizational capability and technology/innovation. FLS plans to focus on opportunities that can maximize its organic growth from existing customers, while evaluating potential new customer-partnering initiatives that maximize the capture of the product's total life cycle. FLS plans to increase its presence in emerging markets, targeting China, Russia, Africa, the Middle East and Latin America. The company has already expanded its China presence with additional sales and supply chain professionals and growth plans, which include acquisition or development of new capabilities that will enhance the penetration of products for oil & gas and power projects.

COMPETITIVE ENVIRONMENT. Demand for most of FLS's products depends on the level of new capital investment and planned and unplanned maintenance expenditures by its customers. The level of new capital investment depends, in turn, on capital infrastructure projects driven by the need for oil and gas, chemicals, power generation and water management, as well as general economic conditions. These drivers are generally related to the phase of the business cycle in their respective industries and the expectations of future market behavior. The levels of maintenance expenditures are additionally driven by the reliability of equipment, planned and unplanned downtime for maintenance and the required capacity utilization of the process.

Despite consolidation activities in past years, the markets for FLS's products remain highly competitive, with primary competitive drivers being price, reputation, project management, timeliness of delivery, quality, proximity to service centers and technical expertise, as well as contractual terms and previous installation history. In the pursuit of large capital projects, competitive drivers and competition vary depending on the industry and products involved. Industries experiencing slow growth generally tend to have a competitive environment more heavily influenced by price due to supply outweighing demand and price competition tends to be more significant for original equipment orders than aftermarket services. Considering the domestic and global economic environments in recent years, pricing has been and may continue to be a particularly influential competitive factor.

In the aftermarket portion of FLS's business, the company competes against large, well-established national and global competitors and, in some markets, against regional and local companies. In the oil and gas and chemical industries, the primary competitors for aftermarket services tend to be customers' own in-house capabilities. In the nuclear power generation industry, FLS possesses certain competitive advantages due to its "N Stamp" certification, which is a prerequisite to serve customers in that industry, and its considerable base of proprietary knowledge. Aftermarket competition for standardized products is aggressive due to the existence of common standards allowing for easier replacement or repair of the installed products.

FINANCIAL TRENDS. Bookings of \$4.020 billion in 2018 were up slightly from \$3.804 billion in 2017. The slight increase was primarily driven by the oil and gas industry, and to a lesser extent, the chemical and general industries, partially offset by a decrease in the power generation industry. Backlog was \$1.9 billion as of December 31, 2018, a decrease from \$2.0 billion as of December 31, 2017.

In the five years through 2018, revenues declined at a compound annual growth rate (CAGR) of 5.0%. In the same period, EPS declined at a CAGR of 13.0%.

Corporate Information**Investor Contact**

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972-443-6800

Website

www.flowserve.com

Officers

| | |
|-----------------------------------------------------------------|--------------------------------------------------------------|
| Vice President of Marketing & Technology | President, CEO & Director |
| T. Salma | R. S. Rowe |
| Senior VP, Chief Legal Officer & Corporate Secretary | Interim CFO, VP of Investor Relations & Treasurer |
| L. T. Minnix | J. E. Roueche |
| Non-Executive Chairman | |
| R. L. Fix | |

Board Members

| | |
|----------------|---------------|
| D. E. Roberts | R. J. Mills |
| G. J. Dely | R. L. Fix |
| J. E. Harlan | R. R. Chandry |
| J. L. Garrison | R. S. Rowe |
| J. R. Friedery | S. Chand |
| M. C. McMurray | |

Domicile

New York

Auditor

PricewaterhouseCoopers LLP

Founded

1912

Employees

17,000

Stockholders

1,002

Flowserve Corporation

| Quantitative Evaluations | | | | | Expanded Ratio Analysis | | | | | | |
|-------------------------------|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|------------------|-------------------------|----------------|----------------|-------|-------|--|--|
| Fair Value Rank | 3 | 1 | 2 | 3 | 4 | 5 | | | | | |
| | | LOWEST | | | | HIGHEST | | | | | |
| | | Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued [1] to most undervalued [5]. | | | | | | | | | |
| Fair Value Calculation | USD 47.99 | Analysis of the stock's current worth, based on CFRA's proprietary quantitative model suggests that FLS is slightly undervalued by USD 1.31 or 2.8%. | | | | | | | | | |
| Volatility | | LOW | AVERAGE | HIGH | | | | | | | |
| Technical Evaluation | NEUTRAL | Since January, 2020, the technical indicators for FLS have been NEUTRAL. | | | | | | | | | |
| Insider Activity | | UNFAVORABLE | NEUTRAL | FAVORABLE | | | | | | | |
| | | Price/Sales | | | | 2018 | 2017 | 2016 | 2015 | | |
| | | Price/EBITDA | | | | 1.30 | 1.51 | 1.58 | 1.24 | | |
| | | Price/Pretax Income | | | | 10.79 | 13.93 | 16.59 | 8.91 | | |
| | | P/E Ratio | | | | 28.31 | 21.04 | 29.56 | 13.65 | | |
| | | Avg. Diluted Shares Outsg. (M) | | | | 41.78 | 2106.50 | 47.57 | 21.80 | | |
| | | | | | | 131 | 131 | 131 | 134 | | |
| | | Figures based on fiscal year-end price | | | | | | | | | |
| Key Growth Rates and Averages | | | | | | | | | | | |
| | | Past Growth Rate [%] | | | 1 Year | 3 Years | 5 Years | | | | |
| | | Sales | | | 4.69 | -5.61 | -5.01 | | | | |
| | | Net Income | | | NM | -22.63 | -24.43 | | | | |
| Ratio Analysis (Annual Avg.) | | | | | | | | | | | |
| | | Net Margin [%] | | | NM | NM | NM | | | | |
| | | % LT Debt to Capitalization | | | 45.00 | NA | NA | | | | |
| | | Return on Equity [%] | | | 7.51 | NA | NA | | | | |

| Company Financials Fiscal year ending Dec. 31 | | | | | | | | | | |
|------------------------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Per Share Data (USD) | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
| Tangible Book Value | 1.95 | 1.74 | 1.52 | 1.51 | 5.34 | 4.39 | 4.75 | 6.56 | 5.71 | NA |
| Free Cash Flow | 0.82 | 1.91 | 1.16 | 1.95 | 3.37 | 2.46 | 2.43 | 0.66 | 1.52 | NA |
| Earnings | 0.91 | 0.02 | 1.01 | 1.93 | 3.72 | 3.41 | 2.84 | 2.55 | 2.29 | NA |
| Earnings (Normalized) | 1.33 | 1.03 | 1.03 | 1.97 | 3.20 | 3.09 | 2.40 | 2.21 | 1.94 | NA |
| Dividends | 0.76 | 0.76 | 0.76 | 0.72 | 0.64 | 0.56 | 0.48 | 0.43 | 0.39 | NA |
| Payout Ratio [%] | 83 | 3,742 | 74 | 36 | 17 | 16 | 16 | 16 | 16 | NA |
| Prices: High | 56.86 | 52.10 | 52.50 | 64.41 | 82.24 | 78.89 | 49.03 | 45.24 | 39.94 | 36.28 |
| Prices: Low | 35.88 | 37.51 | 33.86 | 39.47 | 53.93 | 49.99 | 32.80 | 22.28 | 27.12 | 14.41 |
| P/E Ratio: High | 62.5 | NM | 52.0 | 33.4 | 22.1 | 23.1 | 17.3 | 17.7 | 17.4 | 14.3 |
| P/E Ratio: Low | 39.4 | NM | 33.5 | 20.4 | 14.5 | 14.7 | 11.6 | 8.7 | 11.8 | 5.7 |
| Income Statement Analysis (Million USD) | | | | | | | | | | |
| Revenue | 3,833 | 3,661 | 3,990 | 4,558 | 4,878 | 4,955 | 4,751 | 4,510 | 4,032 | NA |
| Operating Income | 350 | 279 | 263 | 505 | 760 | 732 | 659 | 607 | 565 | NA |
| Depreciation + Amortization | 112 | 118 | 117 | 127 | 110 | 106 | 107 | 105 | 101 | NA |
| Interest Expense | 58.2 | 59.7 | 60.1 | 65.3 | 60.3 | 54.4 | 43.5 | 36.2 | 34.3 | NA |
| Pretax Income | 176 | 263 | 213 | 412 | 729 | 693 | 612 | 588 | 530 | NA |
| Effective Tax Rate | 29.1 | 98.4 | 36.3 | 36.0 | 28.7 | 29.5 | 26.3 | 27.0 | 26.7 | NA |
| Net Income | 120 | 3 | 132 | 258 | 513 | 486 | 448 | 429 | 388 | NA |
| Net Income (Normalized) | 175 | 135 | 135 | 264 | 441 | 440 | 380 | 371 | 329 | NA |
| Balance Sheet and Other Financial Data (Million USD) | | | | | | | | | | |
| Cash | 620 | 703 | 367 | 366 | 450 | 364 | 304 | 337 | 558 | NA |
| Current Assets | 2,383 | 2,559 | 2,298 | 2,457 | 2,794 | 2,847 | 2,740 | 2,628 | 2,524 | NA |
| Total Assets | 4,616 | 4,910 | 4,709 | 4,963 | 4,968 | 5,037 | 4,811 | 4,623 | 4,460 | NA |
| Current Liabilities | 1,081 | 1,243 | 1,178 | 1,350 | 1,472 | 1,558 | 1,591 | 1,470 | 1,456 | NA |
| Long Term Debt | 1,415 | 1,500 | 1,485 | 1,561 | 1,102 | 1,128 | 869 | 452 | 476 | NA |
| Total Capital | 3,144 | 3,246 | 3,208 | 3,285 | 3,097 | 3,077 | 2,823 | 2,785 | 2,642 | NA |
| Capital Expenditures | 84 | 62 | 90 | 182 | 133 | 139 | 136 | 108 | 102 | NA |
| Cash from Operations | 191 | 311 | 240 | 441 | 594 | 488 | 517 | 218 | 356 | NA |
| Current Ratio | 2.20 | 2.06 | 1.95 | 1.82 | 1.90 | 1.83 | 1.72 | 1.79 | 1.73 | NA |
| % Long Term Debt of Capitalization | 45.0 | 46.2 | 46.3 | 47.5 | 35.6 | 36.6 | 30.8 | 16.2 | 18.0 | NA |
| % Net Income of Revenue | 3.12 | 0.07 | 3.32 | 5.67 | 10.52 | 9.80 | 9.44 | 9.50 | 9.63 | NA |
| % Return on Assets | 4.59 | 3.62 | 3.40 | 6.35 | 9.49 | 9.29 | 8.73 | 8.35 | 8.11 | NA |
| % Return on Equity | 7.5 | 0.3 | 8.2 | 14.6 | 27.2 | 25.9 | 21.6 | 19.5 | 19.9 | NA |

Source: S&P Global Market Intelligence. Data may be preliminary or restated; before results of discontinued operations/special items. Per share data adjusted for stock dividends; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

Flowserve Corporation

Sub-Industry Outlook

Our fundamental investment outlook for the industrial machinery sub-industry group remains positive, reflecting our outlook for solid demand in manufacturing and machinery usage in the U.S. We see a rebound in economic growth in Europe driving demand from that region. Growth in China is slowing, but some companies still forecast growth in the region for 2019. While we believe headwinds are overall not as severe as investors are worried about, tariff discussions and trade war threats still weigh on companies in the sub-industry as the likelihood and timing of a trade resolution with China remains unknown.

According to the Federal Reserve, August 2019 industrial production expanded 0.6% after contracting 0.1% in July and expanding 0.2% and 0.1% in May and June, respectively. Manufacturing utilization rose in August to 75.7% from 75.4% in July. Total capacity utilization for the industrial sector increased slightly to 77.9% in August from 77.5% in July. The recent capacity utilization is 0.4 percentage points below its long-run [1972-2018] average of 78.3%. However, the rate well exceeds the all-time low of 66.7% in June 2009.

Recent national PMI [Purchasing Managers' Index] data also indicates continued economic expansion in the manufacturing sector. The August 2019 ISM [Institute of Supply Management] National PMI was 49.1, a 2.1% decrease from the July reading of 51.2, ending a 35-month long expansionary period. A score above 50 generally indicates expansion of the manufacturing economy over the next three to six months. July marks the 124th consecutive month of overall expansion. The New Orders Index registered 57.2, a 3.6% decrease from July. The Production Index registered 49.5, a 1.3% decrease from the July reading. The Employment Index registered 47.4, a decrease of 4.3% from

the July reading. The Inventories Index registered 49.9, an increase of 0.4% from July. The Prices Index registered 46.0, a 0.9% increase from July, indicating slightly lower raw material prices from July. Prices were down for aluminum and steel products, but up for hot-rolled steel [a positive sign for future price recovery].

In August 2019, China's manufacturing PMI decreased to 50.4 from 49.9 in July, returning to just above the 50.0 threshold, below which a sector is believed to be contracting. The December 2018 reading of 49.7 was the first contractionary reading for the Chinese manufacturing sector since May 2017 and it did not rise above 50 until March. U.S. tariffs continue to weigh on Chinese order growth and demand levels, as well as consumer sentiment and business environment sentiment.

In 2018, the S&P Industrial Machinery Index declined 16.0% versus the S&P Composite 1500 Index decline of 6.8%. As of September 30, 2019, the five-year compound annual growth rate [CAGR] for the S&P Industrial Machinery Index was 9.5% versus the S&P Composite 1500 Index CAGR of 8.5% and the Industrial Sector CAGR of 7.7%. Year-to-date through September 30, the S&P Industrial Machinery Index is up 19.7% and the Industrial Sector is up 20.9% versus the S&P Composite 1500 Index increase of 18.4%.

/Elizabeth Vermillion

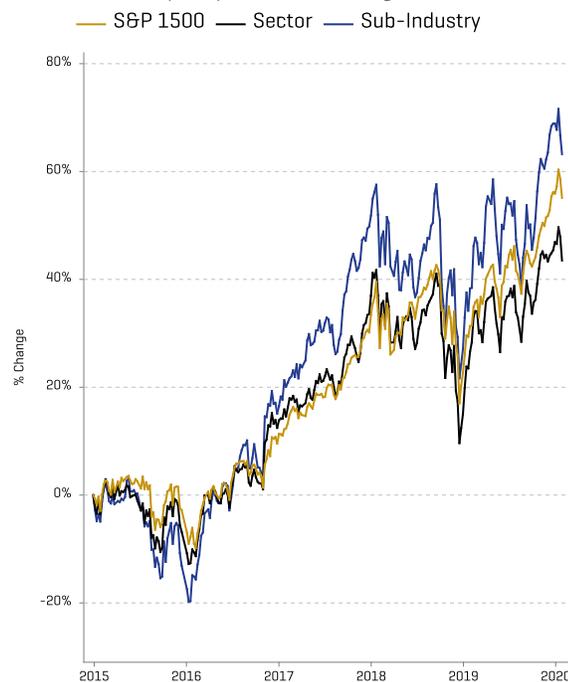
Industry Performance

GICS Sector: Industrials

Sub-Industry: Industrial Machinery

Based on S&P 1500 Indexes

Five-Year market price performance through Feb 01, 2020



NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS).

Past performance is not an indication of future performance and should not be relied upon as such.

Source: S&P Global Market Intelligence

Sub-Industry: Industrial Machinery Peer Group*: Industrial Machinery

| Peer Group | Stock Symbol | Exchange | Currency | Recent Stock Price | Stk. Mkt. Cap. [M] | 30-Day Price Chg. [%] | 1-Year Price Chg. [%] | P/E Ratio | Fair Value Calc. | Yield [%] | Return on Equity [%] | LTD to Cap [%] |
|---------------------------------|--------------|-------------|------------|--------------------|--------------------|-----------------------|-----------------------|-----------|------------------|------------|----------------------|----------------|
| Flowserve Corporation | FLS | NYSE | USD | 46.68 | 6,109 | -6.2 | 6.0 | 25 | 47.99 | 1.6 | 7.5 | 45.0 |
| Crane Co. | CR | NYSE | USD | 85.46 | 5,126 | -1.1 | 3.3 | 39 | 76.51 | 2.0 | 8.9 | 34.1 |
| Donaldson Company, Inc. | DCI | NYSE | USD | 51.85 | 6,562 | -10.0 | 9.7 | 26 | 47.03 | 1.6 | 30.4 | 38.0 |
| GEA Group Aktiengesellschaft | GEAG.Y | OTCPK | USD | 30.02 | 5,421 | -9.3 | 8.9 | 23 | NA | 3.2 | 9.3 | 21.7 |
| Gardner Denver Holdings, Inc. | GDI | NYSE | USD | 35.31 | 7,226 | -3.7 | 43.1 | 32 | 18.11 | Nil | 17.1 | 49.1 |
| ITT Inc. | ITT | NYSE | USD | 67.08 | 5,883 | -9.2 | 27.6 | 19 | 83.05 | 0.9 | 19.5 | 0.5 |
| Lincoln Electric Holdings, Inc. | LECO | NasdaqGS | USD | 89.18 | 5,453 | -7.8 | 3.2 | 18 | 91.83 | 2.2 | 31.5 | 44.4 |
| Metso Corporation | MXCY.Y | OTCPK | USD | 8.896 | 5,343 | -9.9 | 21.1 | 15 | NA | 3.8 | 16.6 | 19.0 |
| Pentair plc | PNR | NYSE | USD | 42.93 | 7,216 | -6.4 | 4.2 | 21 | 40.48 | 1.8 | 19.1 | 34.5 |
| The Middleby Corporation | MIDD | NasdaqGS | USD | 112.16 | 6,297 | 2.4 | -4.6 | 18 | 112.41 | Nil | 21.0 | 53.1 |
| Woodward, Inc. | WWD | NasdaqGS | USD | 116.31 | 7,234 | -1.8 | 28.0 | 29 | 117.69 | 1.0 | 15.9 | 30.8 |

*For Peer Groups with more than 10 companies or stocks, selection of issues is based on market capitalization.

NA-Not Available NM-Not Meaningful.

Note: Peers are selected based on Global Industry Classification Standards and market capitalization. The peer group list includes companies with similar characteristics, but may not include all the companies within the same industry and/or that engage in the same line of business.

Flowserve Corporation**Analyst Research Notes and other Company News****November 01, 2019**

08:07 am ET... CFRA Maintains Hold Opinion on Shares of Flowserve Corporation [48.84***]: We raise our 12-month target price \$1 to \$51, valuing the shares at 20.2x our 2020 EPS estimate of \$2.53 [lowered from \$2.61], in the middle of FLS' five-year range and above peers' forward average of 16.7x due to our outlook for growth from late-cycle project activity. We raise our 2019 EPS estimate \$0.01 to \$2.20. FLS posts Q3 EPS of \$0.59 vs. \$0.49, above our estimate for \$0.56. Q3 revenue increased 4.6% and bookings were 1.3% higher than the prior year period. Bookings growth was very mixed across regions and end-markets with strongest growth in original equipment. Bookings fell 19% in Europe. We expect continued growth in original equipment revenue supported by solid backlog and bookings. We forecast 2019 revenue growth of 3.0%-3.5% followed by growth of 4.5%-5.0% in 2020. We forecast robust gross margin expansion in 2019 of 150 basis points (bps) to 33.8% followed by a slight 20 bps contraction to 33.6% in 2020. /Elizabeth Vermillion

August 01, 2019

03:51 pm ET... CFRA Reiterates Hold Opinion on Shares of Flowserve Corporation [45.5***]: We lower our 12-month target price to \$50 from \$54, valuing the shares at 19.2x our 2020 EPS estimate of \$2.61 [raised from \$2.52], in the middle of FLS' five-year range and above peers' forward average of 16.4x due to our outlook for future growth based on continued solid bookings. We raise our 2019 EPS estimate to \$2.19 from \$2.10. FLS posts Q2 EPS of \$0.54 vs. \$0.41, above our \$0.48 estimate. Q2 revenue rose 1.7% year-over-year and 11.2% sequentially (in line with normal seasonality). Bookings rose 6.5%, supported by 11.9% growth in original equipment bookings [54% of total]. Large project work is accelerating and we expect a competitive pricing market in pumps and valves. We are encouraged by new projects in oil & gas, particularly midstream and liquefied natural gas. We forecast 2019 revenue growth of 4.0%-4.5% followed by 5.0%-5.5% growth in 2020. We see robust gross margin expansion of 110 basis points (bps) to 33.4% in 2019, followed by 50 bps of expansion to 33.9% in 2020. /Elizabeth Vermillion

May 03, 2019

11:11 am ET... CFRA Maintains Hold Opinion on Shares of Flowserve Corporation [51.95***]: We raise our 12-month target price to \$54 from \$49, valuing the shares at 25.7x our 2019 EPS estimate of \$2.10 [unchanged], at the upper end of FLS' five-year average and slightly above peers' forward average, due to our outlook for future growth based on increased bookings. We maintain our 2020 EPS estimate at \$2.52. FLS posts Q1 EPS of \$0.41 vs. \$0.27, beating our \$0.33 estimate. Q1 bookings increased 14.9% supported by original equipment bookings up 24.5% and 5.8% growth in aftermarket bookings. Total revenue decreased 3.3%, but aftermarket revenue remains strong, up 3.4%. SG&A margin improved 190 basis points, falling to 23.0%. In 2019, we expect EBITDA margin to expand 140 basis points to 14.1%. In 2019, we forecast revenue growth of 4.5%-5.0%, at the lower end of company guidance for growth of 4.0%-6.0%. /Elizabeth Vermillion

February 22, 2019

07:16 am ET... CFRA Reiterates Hold Opinion on Shares of Flowserve Corporation [46.36***]: We lower our 12-month target price to \$49 from \$55, valuing the shares at 23.3x our 2019 EPS estimate of \$2.10 [lowered \$0.02], at the lower end of FLS' five-year average due to recent market volatility and ongoing efforts from the improvement initiative plan. We start our 2020 EPS estimate at \$2.52. FLS posts Q4 EPS of \$0.58 vs. \$0.50, higher than our \$0.54 estimate. In Q4, sales declined 4.6%, hurt by revenue recognition accounting changes. After-market sales decreased 1.2%. Bookings were a highlight in the quarter, up 6.1% overall and 14.9% for after-market services. We see strength in the oil & gas and chemicals end markets, but note continuing weakness in power. Past due backlog levels are improving and, combined with positive price realization, are supporting margin improvement. In 2019, we forecast 80 basis points of gross margin expansion to 33.1%. We estimate revenue growth of roughly 4.5%. /Elizabeth Vermillion

November 08, 2018

04:52 pm ET... CFRA KEEPS HOLD OPINION ON SHARES OF FLOWSERVE CORPORATION [53***]: We raise our 12-month target price \$2 to \$55, 25.9x our 2019 EPS estimate of \$2.12 [raised from \$2.02], in line with FLS' five-year average, justified by balanced headwinds and tailwinds as FLS works

though its improvement initiative program. We raise our 2018 EPS estimate \$0.06 to \$1.71. FLS posts Q3 EPS of \$0.49 vs. \$0.37, above our \$0.43 estimate. Sales rose 7.8% and bookings increased 13.2% due to smaller original equipment awards, aftermarket bookings and a few larger equipment orders in the refinery space. We see strength in the oil & gas and chemicals end markets, but note continuing weakness in power. Margin in the Industrial Product Division continues to be pressured by low margin past due backlog, but we see benefits from the divestiture of two non-core lower margin product lines. We estimate 80 basis points (bps) of EBITDA margin expansion to 12.7% in 2018 and another 130 bps of expansion in 2019. We forecast revenue growth of 6.5% and 4.0% in 2018 and 2019, respectively. /Elizabeth Vermillion

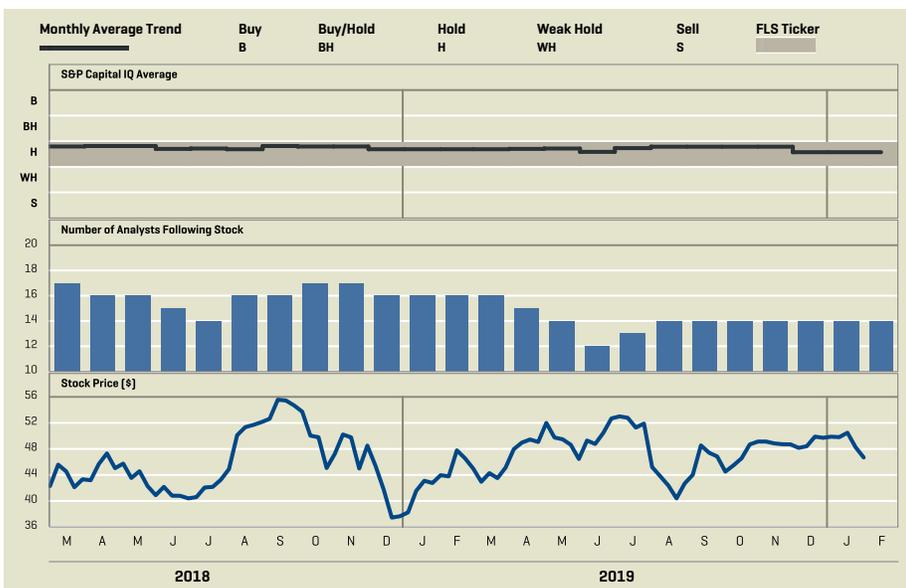
August 09, 2018

01:09 pm ET... CFRA MAINTAINS HOLD OPINION ON SHARES OF FLOWSERVE CORPORATION [45.93***]: We raise our 12-month target price to \$53 from \$47, valuing the shares at 26.2x our 2019 EPS estimate of \$2.02 [lowered from \$2.06], in line with FLS' five-year average, pushing our valuation base out one year. We maintain our 2018 EPS of \$1.65. FLS posts Q2 EPS of \$0.41 vs. \$0.22, above our \$0.36 estimate. Sales increased 10.9% and bookings increased 6.8% supported by oil & gas, chemicals and general industries. The Industrial Product Division was profitable for the first quarter in recent years and lowered past due backlog. Q2 gross margin increased 40 basis points to 31.9% due to volume leverage, positive pricing action and positive impacts from ASC 606. We estimate 2018 revenue growth of 5.0% to 5.5%. /Elizabeth Vermillion

Note: Research notes reflect CFRA's published opinions and analysis on the stock at the time the note was published. The note reflects the views of the equity analyst as of the date and time indicated in the note, and may not reflect CFRA's current view on the company.

Flowserve Corporation

Analysts' Recommendations



Wall Street Consensus Opinion

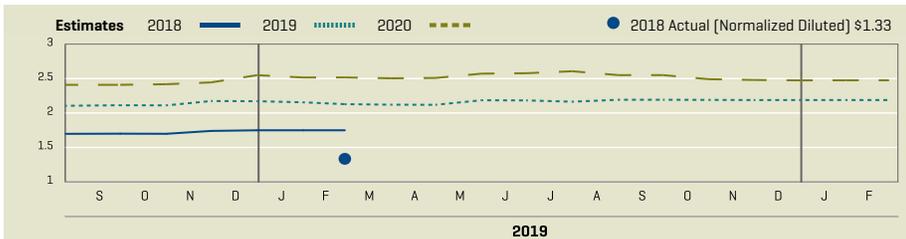
HOLD

Wall Street Consensus vs. Performance

For fiscal year 2019, analysts estimate that FLS will earn USD \$2.19. For the 3rd quarter of fiscal year 2019, FLS announced earnings per share of USD \$0.52, representing 23.7% of the total revenue estimate. For fiscal year 2020, analysts estimate that FLS's earnings per share will grow by 13% to USD \$2.48.

| | No. of Recommendations | % of Total | 1 Mo. Prior | 3 Mos. Prior |
|--------------|------------------------|------------|-------------|--------------|
| Buy | 2 | 14 | 2 | 3 |
| Buy/Hold | 1 | 7 | 1 | 1 |
| Hold | 8 | 57 | 8 | 8 |
| Weak Hold | 2 | 14 | 2 | 1 |
| Sell | 1 | 7 | 1 | 1 |
| No Opinion | 0 | 0 | 0 | 0 |
| Total | 14 | 100 | 14 | 14 |

Wall Street Consensus Estimates



| Fiscal Years | Avg Est. | High Est. | Low Est. | # of Est. | Est. P/E |
|------------------------|-------------|-------------|-------------|--------------|--------------|
| 2020 | 2.48 | 2.67 | 2.33 | 13 | 18.9 |
| 2019 | 2.19 | 2.26 | 2.15 | 13 | 21.3 |
| 2020 vs. 2019 | ▲13% | ▲18% | ▲8% | 0% | ▼-11% |
| Q4'20 | 0.75 | 0.84 | 0.68 | 5 | 62.1 |
| Q4'19 | 0.65 | 0.72 | 0.61 | 13 | 71.4 |
| Q4'20 vs. Q4'19 | ▲15% | ▲17% | ▲11% | ▼-62% | ▼-13% |

Forecasts are not reliable indicator of future performance.

Note: A company's earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.

Note: For all tables, graphs and charts in this report that do not cite any reference or source, the source is S&P Global Market Intelligence.

Flowserve Corporation

Glossary

STARS

Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, we have ranked Asian and European equities since June 30, 2002. Under proprietary STARS (Stock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index [S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index]), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P Global Market Intelligence's Quality Ranking

(also known as **S&P Capital IQ Earnings & Dividend Rankings**) - Growth and stability of earnings and dividends are deemed key elements in establishing S&P Global Market Intelligence's earnings and dividend rankings for common stocks, which are designed to encapsulate the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

| | | | |
|----|---------------|----|-------------------|
| A+ | Highest | B | Below Average |
| A | High | B- | Lower |
| A- | Above Average | C | Lowest |
| B+ | Average | D | In Reorganization |
| NR | Not Ranked | | |

EPS Estimates

CFRA's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, EPS estimates reflect either forecasts of equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

12-Month Target Price

The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including Fair Value.

CFRA Equity Research

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Abbreviations Used in Equity Research Reports

CAGR - Compound Annual Growth Rate
 CAPEX - Capital Expenditures
 CY - Calendar Year
 DCF - Discounted Cash Flow
 DDM - Dividend Discount Model
 EBIT - Earnings Before Interest and Taxes
 EBITDA - Earnings Before Interest, Taxes, Depreciation & Amortization
 EPS - Earnings Per Share
 EV - Enterprise Value
 FCF - Free Cash Flow
 FFO - Funds From Operations

FY - Fiscal Year
 P/E - Price/Earnings
 P/NAV - Price to Net Asset Value PEG Ratio - P/E-to-Growth Ratio PV - Present Value
 R&D - Research & Development ROCE - Return on Capital Employed ROE - Return on Equity
 ROI - Return on Investment
 ROIC - Return on Invested Capital
 ROA - Return on Assets
 SG&A - Selling, General & Administrative Expenses
 SOTP - Sum-of-The-Parts
 WACC - Weighted Average Cost of Capital

Dividends on American Depositary Receipts (ADRs) and American Depositary Shares (ADSs) are net of taxes (paid in the country of origin).

Qualitative Risk Assessment

Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

STARS Ranking system and definition:

★★★★★ 5-STARs (Strong Buy):

Total return is expected to outperform the total return of a relevant benchmark, by a notable margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★★ 4-STARs (Buy):

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★★★ 3-STARs (Hold):

Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★★★★ 2-STARs (Sell):

Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

★★★★★ 1-STAR (Strong Sell):

Total return is expected to underperform the total return of a relevant benchmark by a notable margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks:

In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

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STARS Stock Reports:

Global STARS Distribution as of December 31, 2019

| Ranking | North America | Europe | Asia | Global |
|---------|---------------|--------|--------|--------|
| Buy | 33.4% | 29.0% | 41.1% | 33.5% |
| Hold | 56.1% | 54.8% | 46.4% | 54.6% |
| Sell | 10.5% | 16.2% | 12.5% | 11.9% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

Analyst Certification:

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