

Flowserve Corporation/Ingersoll-Dresser Pump

The case study below is an example of the impact of the s3 (*Speed, Synergies, Stability*) Model and Methodology.

In October, 2002, BusinessWeek published an article revealing its study of 306 major mergers. Using the measure of Shareholder Returns, the Flowserve/IDP integration outperformed all mergers in the study for 2000 and was 2nd only to a BioTech transaction for the entire 4-year period.

Final Results:

- 1. 40% of synergies executed within the first 30 days of close**
- 2. Total integration time was 8 months vs. 18 months**
- 3. Sales and bookings remained stable to up during the integration**
- 4. Cash-flow from synergies 331% above plan**
- 5. Stock price nearly tripled in 12 months.**
- 6. Integration synergies were 175% over plan - ten months ahead of schedule**

Flowserve Corporation's Acquisition of Ingersoll-Dresser Pump Per Public Announcements



February 10, 2000 - Flowserve Corporation announced the acquisition of Ingersoll-Dresser Pumps for \$775 million in cash. Synergies are projected to be \$75 million by the end of 2001.

"It is rare for a combination of two businesses to yield this amount of available hard synergies, which should significantly lower the costs of the total entity. These expected synergies will result in the elimination of a number of overlapping facilities and other inefficiencies," said Greer (CEO)

- March 3, 2000 - Flowserve retained the services of M&A Partners, LLC to lead the integration with IDP.
- During the subsequent 6 month period all synergies and the required actions were identified and placed into specific plans that could be executed upon closing.
- August 8, 2000 - Flowserve Corporation announced the completion of its acquisition of Ingersoll-Dresser Pump Company.
"The integration of IDP into Flowserve will begin immediately," said

Flowserve Chairman, C. Scott Greer. "We have already identified significant synergies and cost savings that will quickly start making positive impacts on the combined businesses."

- August 16, 2000 - In the week following Flowserve Corp.'s acquisition of Ingersoll-Dresser Pump Company (IDP), the company announced its progress in making facility consolidations and reducing employment levels by approximately 1,100 positions as part of working to realize the estimated \$75 million in annual synergies expected by December 2001. The company expects to complete all consolidation actions within 15 months.

Steps taken by the company to date include:

- Announcing the closing of IDP's former headquarters in Liberty Corner, New Jersey
- Announcing the downsizing of its Phillipsburg, N.J. site
- Announcing the closing of its Dayton, Ohio pump operations
- Announcing the closing of four repair and service centers located in Houston; Walpole, Mass.; Lakeland, Fla.; and Edmonton, Canada
- Announcing the reduction of certain sales and sales support personnel
- Initiating discussions with respective labor organizations about the potential closure of operations in three foreign manufacturing locations, as well as announcing additional facilities-related closures within the next few weeks.
- As previously announced, Flowserve also will divest eight pump lines, and the repair and service centers in Batavia, Ill., and La Mirada, Calif., and its manufacturing facility in Tulsa, Okla., as part of its antitrust agreement with the U.S. Department of Justice.
- October 24, 2000 - Flowserve announced today third quarter net income of 18 cents a share, before special items.
- Consolidated operating income increased 61% compared with third quarter of 1999 including the acquisition of IDP
- EBITDA excluding special items in both periods, were \$48 million in the third quarter, compared with \$19.7 Million in the year-ago period
- Sales from comparable operations were up 4%.
- The combined bookings increased 54%

"We are very pleased with our strong operating performance in the third quarter of 2000, in both comparable operations and total operations," said Greer. "In fact, operating margins from comparable operations increased in every segment. As a result of the current pace of the IDP integration and an expected pickup in fourth quarter shipments, we anticipate Flowserve can produce full year 2000 earnings."

"We are making big strides in integrating IDP into Flowserve's existing operations, which reaffirms our confidence in the success of the IDP integration and our ability to realize \$75 million in synergy savings. All facility rationalizations and workforce reductions have been announced. Customer orders are already being routed to their new locations. And

all significant labor union agreements arising from these actions have been completed," said Greer.

M&A Partners Fulfills its Requirements and All Integration Synergy Actions Have Been Completed

- January 19, 2001 - Flowserve Chief Executive makes comments at Wall Street Conference. Greer said, "The integration of Ingersoll-Dresser Pump Company is ahead of schedule."
- February 6, 2001 - Flowserve EPS, before special items, up 117% for quarter, up 30% for year. Headlines from the announcement:
 - Fourth quarter 2000 operating income increased 306%
 - Sales increased 106%
 - Fourth quarter bookings increased 82%
 - For the full year the company announced net income increase of 30%

"Even if sales were to be flat, we would still anticipate improved results in 2001 due to the capture of synergies from the IDP acquisition. Specifically, we believe Flowserve can produce full year 2001 earnings per share in the range of \$1.70 to \$1.90, excluding special charges," Greer said. "The year-end run rate for synergy savings was about 133% higher than planned".

Shortly Thereafter the Company Announced Total Realized Synergies of \$109 Million After all Add-back Costs