



## **CIRCOR International, Inc. Letter to Shareholders 2014**

To Our Shareholders:

We turned in another year of solid financial performance in 2014 as we executed on our plan to transform CIRCOR into a growth-oriented operating company. Financially, we grew adjusted operating margin 30 basis points to 10.2%, and adjusted earnings per share increased 16% to \$3.72 on revenues of \$841 million. We continued to drive strong cash generation with full-year free cash flow of \$58 million, or 115% of net income.

We made excellent progress on our transformation strategy in 2014. CIRCOR's historic reliance on an acquisition-based growth strategy with limited integration resulted in a complex holding company with many different cultures. Now, we are creating a simpler operating company with one culture focused on delivering results for customers and shareholders. We made significant organization changes last year and we enhanced our team to align with this new structure. As part of these changes, we created important new roles, notably in sales, operations, and sourcing. We established a common global operating system, including standardized processes, metrics, and clear lines of accountability.

### **Focused on Growth**

In Energy, we are well positioned in long-term high-growth markets within oil & gas and power generation. In 2014, we dedicated significant resources to enhancing our sales and engineering teams, with a particular focus in North America and Asia. We established a new global sales organization aligned by end-market (e.g. upstream, midstream, power), and region to provide a higher level of service and support to customers.

As part of our new sales structure, we established and reinforced offices in important long-term growth markets. For example, in September we opened an office in Kuala Lumpur, Malaysia to better penetrate growing energy and industrial markets in the region. Having a physical presence near major Engineering, Procurement, and Construction (EPC) companies in Asia allows us to better manage the integrated and global procurement process that our customers use to make decisions. Our Kuala Lumpur team was instrumental in winning a large Canadian project that is managed by a Korean EPC.



In Aerospace & Defense, we design, manufacture, and sell components and sub-systems in actuation and fluid control. Our primary end markets are attractive. We sell into large commercial transport and regional jet markets as well as several important defense platforms, including the F35 and several missile and UAV programs.

Across all of CIRCOR, we focused our engineering resources on higher-technology, differentiated products where we can solve critical problems for customers. In Energy, we launched a new zero-leak, severe-service, turbine bypass valve with steam conditioning for applications in power, chemical, and petrochemical plants. Longer term, this new product creates opportunities for us to penetrate other major industries where high pressure steam control is essential. In Aerospace & Defense, we are developing a split-ring switch for missile sensors used in arming and detonation as well as aspirator technology to achieve high flow rates for rapid inflation in a multitude of applications.

In addition, we took concrete steps to make it easier for our customers to do business with us. We improved customer on time delivery and simplified our pricing structure in several important markets. We are developing a new customer portal solution that will simplify how customers interface with CIRCOR, including a product configurator and simplified order entry.

Finally, acquisitions will become an increasingly important component of our growth strategy. We see many potential acquisition candidates in our end markets and we have become more active in building relationships with potential partners.

### A Simpler Company

Simplification is an ongoing theme at CIRCOR, and it touches nearly everything we do. Simplifying CIRCOR will not only reduce costs but it will improve our operations and controls. Since 2013, we made significant progress towards our goals.

	<b>2013</b>	<b>2014</b>	<b>2018 Goal</b>
<b>Factories</b>	24	19	15
<b>P&amp;L's</b>	22	17	12
<b>ERP Systems</b>	24	18	15
<b>Suppliers</b>	~5,000	3,800	1,200

These are aggressive targets, but we are on track. We expect our simplification strategy to have a measurable effect on our long-term margin profile.



As part of our simplification efforts in 2014, we divested two businesses at the end of the fourth quarter. The two businesses -- Sagebrush Pipeline Equipment Company and Cambridge Fluid Systems – were not strategic businesses for CIRCOR. These divestitures will enable us to focus our resources on businesses that have differentiated technology and higher growth and margin potential.

Finally, we reorganized the manufacturing operations in our Energy segment into four product technology groups: Engineered Valves, Distributed Valves, Control Valves, and Instrumentation and Sampling. This new structure allows our operations leaders to optimize our global manufacturing capacity and the extended supply chain. We expect to see ongoing productivity and customer response time improvements as we further optimize this structure.

### **World Class Operations**

We are focused on achieving world-class operational excellence at CIRCOR. We are building a more robust CIRCOR Business System – one that extends beyond the four walls of our factories. For example, in 2014 we rolled out a customer-driven, stage-gate process for new product development across the globe. In addition, we made great strides in rolling out a common sales, inventory, and operations planning process across the company to improve customer on-time delivery and working capital performance.

### **Disciplined Capital Deployment**

Internal investments, such as organic growth initiatives, productivity, and restructuring continue to be a top priority at CIRCOR and consistently deliver an exceptional return on invested capital.

Going forward, we will grow through acquisition. Our focus is on companies that bring great technology and operate in strong growth markets that we understand. Return on Invested Capital is the main financial criterion we use to ensure a strong return for shareholders. Importantly, the integration of any acquisition will be driven by a centralized process and a dedicated, full-time integration leader.

Share repurchases are a component of our capital deployment strategy. In December our Board of Directors authorized a new share repurchase program of up to \$75 million of CIRCOR's outstanding common stock. We expect to complete this repurchase program in 2015.

### **Talent Development**



Finally, in order to execute our broad agenda, and capitalize on opportunities in the market, we need to have a world-class team. During the past year we made a number of significant moves within the organization and recruited excellent talent from the outside the company. For example, during the past year we added Vincent Sandoval to lead the Aerospace & Defense segment, Erik Wiik to lead the Energy segment, and Mike Brooks to head our new global sales and marketing organization in Energy.

In closing, I would like to recognize our outstanding team for their commitment and hard work in 2014. As a result of their efforts, we made significant progress in transforming CIRCOR into a global operating company. On behalf of the entire team, I would like to thank you, our shareholders, for placing your trust in us again this past year. We look forward to rewarding your confidence in 2015 and beyond.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott Buckhout". The signature is fluid and cursive, with a large initial "S" and "B".

Scott Buckhout  
President and Chief Executive Officer

\* Please see CIRCOR's fourth quarter and year-end 2014 financial results news release on the "Investors" page of the Company's website at [www.CIRCOR.com](http://www.CIRCOR.com) for a reconciliation of adjusted earnings per share, adjusted segment operating margins and free cash flow to the comparable GAAP financial metrics.