



**Scott A. Buckhout**  
**President and Chief Executive Officer**  
**Circor International, Inc.**

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## **Letter to Shareholders 2015**

To Our Shareholders:

As you know, 2015 was a difficult year for our industry due to the sharp decline in energy prices that began in late 2014 and has continued through the present. Despite these cyclical headwinds, we remained focused on what we control and executed on our plan to expand margins while transforming CIRCOR into a growth-oriented operating company.

On the growth front, we continued to invest in new products, expand our presence into new channels and markets, and build an exceptional sales and marketing team. We also acquired Schroedahl, a manufacturer of specialized safety and control valves for the high growth power generation market. On the operations side, we accelerated our long-term simplification plan which includes reducing facilities, consolidating suppliers, and standardizing technology to drive world-class operational performance.

Our people are our most important asset, and in 2015, we continued to make changes that further strengthened our organization. We created a global operations function and established a strong product management discipline across the businesses. We strengthened the leadership across a number of critical functions at the Company, including operations, product management, sales and marketing, and engineering.

During the year, our adjusted operating margin in 2015 declined 70 basis points to 9.5% and adjusted earnings per share decreased 35% to \$2.43. However, we delivered \$12 million in savings from restructuring and simplification actions that partially mitigated the margin impact of the challenging energy end markets.

Our Energy segment re-aligned its cost structure in 2015, delivering 14% adjusted operating margin despite a 23% drop in sales. Our aggressive restructuring and cost-cutting actions helped reduce the margin impact from significantly lower Energy segment volume. As a result, we outperformed the majority of our Energy peers in 2015.

Our margin expansion initiatives in the Aerospace & Defense (A&D) segment increased adjusted operating margin by 250 basis points to 9.1% in 2015, with strong momentum through the year. Our A&D segment exited the year with Q4 margin of 10.4%, up 510 basis points from Q4 2014.

## **Focused on Growth**

### *Easy to Do Business With*

One of our core initiatives is to make CIRCOR the easiest company in our industry to do business with. For example, we improved our On Time Delivery to 90% in Q4 2015, up from 73% in 2014, which was viewed very favorably by our customers. Going forward we will continue to work to improve this metric along with many others, including lead times, quality, and customer service.

### *New Products*

Across all of CIRCOR, we focused our engineering resources on higher-technology, differentiated products that solve critical problems for customers. During 2015 in our Energy business, we were pleased to launch the Top Guided Control Valve, consolidating our best features and technology from several product lines into one general service control valve. We also launched the Cryogenic Ball Valve to meet our customers' increasing needs for high quality valves able to operate in extreme low temperature applications, primarily in LNG. In A&D we are proud to have launched the new Gear Uplock Actuator, the High "G" switch assembly, and the Rotor Shut-off Valve. These breakthrough technologies serve to increase safety across several applications from aircraft to defense systems. In 2016, we expect to launch a number of additional new products, including severe service Offshore Fittings and the Fully Welded Ball Valve, further expanding our severe service and midstream product portfolio.

### *New Channels and Markets*

CIRCOR has many opportunities to leverage its existing products and services into new markets. In 2015, we embarked on an aggressive growth strategy in Maintenance Repair and Overhaul (MRO) to expand our A&D business. We created a dedicated MRO team including sales, customer service, engineering and production to service fuel, hydraulic and pneumatic system valves. As a result, we dramatically cut lead times while providing our customers with OEM quality products. We are very encouraged by the early results of this initiative. On the Energy side, we are combining dedicated capacity at our existing facilities with new standalone service facilities in key locations to be closer to our customers, better support our installed base, and increase MRO sales.

### *Exceptional Sales & Marketing*

In addition to upgrading our commercial talent in both Energy and A&D, we established a new sales force incentive plan that creates a higher level of accountability and performance. The new compensation plan increases "at risk" pay and clearly ties individual performance to compensation. Our sales representative pay is now directly linked to growth and profitability.

### *Acquisitions*

Acquisitions are another important component of our growth strategy. We look for opportunities that expand our product technology and customer offering, increase our exposure to high growth markets, and enhance our shareholder value. In April 2015 we acquired Schroedahl, a leading manufacturer of specialized safety and control valves for the high growth power generation market. This transaction

provides compelling financial returns while enhancing our existing product line and complementing our global sales and operating footprint.

### **A Simpler Company**

Simplification is an ongoing theme at CIRCOR, and touches nearly everything we do. Simplifying CIRCOR will not only reduce costs, but will also improve our operational metrics and financial controls. Since 2013, we have made significant progress towards our long-term goals.

	<b>2013</b>	<b>2015</b>	<b>2018 Goal</b>
<b>Factories</b>	24	18	15
<b>P&amp;Ls</b>	22	16	12
<b>ERP Systems</b>	24	18	15
<b>Suppliers</b>	~5,000	3,309	1,200

Our simplification strategy has already produced bottom-line benefits and we expect it to have a measurable effect on our long-term margin profile.

In addition, in 2015 we introduced the CIRCOR Operating System (COS) to create a disciplined culture of continuous improvement for driving operational excellence in the quality and delivery of our products and services. Under COS, our employees are participating in a regimented training program. Our manufacturing sites will receive regular prescriptive assessments and action plans to drive process improvement and maturity. Sites will strive to achieve certification levels defined by quantitative performance metrics.

### **Disciplined Capital Deployment**

We began 2015 in a strong financial position with \$121 million of cash and less than \$14 million of total debt on the balance sheet. Consistent with our strategy of disciplined capital deployment, we made the following significant capital allocations in 2015:

- \$29 million on restructuring and capital expenditure projects. Our investments were focused on accelerating our simplification plans and reducing the Energy segment’s cost structure. These initiatives, along with other internal growth and productivity projects, provide an exceptional Return on Invested Capital (ROIC).
- \$80 million on acquisitions. The Schroedahl acquisition provides accretive margins and a strong ROIC. Going forward, our acquisition focus will continue to be on opportunities in markets that we know well. We are most interested in targets that bring great technology, operate in strong growth markets and enhance our customer offering. ROIC is the primary financial criterion that we use to ensure a strong return for shareholders.
- \$75 million on share buybacks. Share repurchases are a component of our balanced capital deployment strategy. During 2015, we completed our \$75 million share repurchase program.

We ended 2015 with \$55 million of cash and \$90 million of total debt on the balance sheet with a leverage ratio (total debt to adjusted EBITDA) of slightly over 1.1. So, we continue to maintain a strong financial position with ample liquidity to execute on our growth strategy.

### **Building the Team**

We strengthened our leadership team in 2015 with the addition of several new members. Erik Wiik joined us as President of our Energy segment. Jay Lapointe joined as Vice President of our newly formed Global Operations team. Andrew Farnsworth joined CIRCOR as Vice President of Human Resources. All bring an abundance of knowledge and experience in their respective fields.

Finally, I am pleased to welcome Helmuth Ludwig to our board of directors. Helmuth brings a wealth of experience with Siemens' PLM Software Division where he led the introduction of several major initiatives for the "Digital Enterprise" within Siemens and for its industrial customer base. I also want to thank Jerry Brady, who retired from the board this year, for his advice and counsel during the past three years and for his 12 years of dedicated service to CIRCOR.

In closing, I would like to recognize our outstanding team for their commitment and hard work in 2015. As a result of their efforts, we made significant progress in transforming CIRCOR into a growth-oriented 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 2016 and beyond.

Sincerely,



Scott Buckhout  
President and Chief Executive Officer

*Note: Please see CIRCOR's fourth quarter and year-end 2015 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. This letter contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Reliance should not be placed on forward-looking statements because they involve unknown risks, uncertainties and other factors, which are, in some cases, beyond the control of CIRCOR. Any statements in this letter that are not statements of historical fact are forward-looking statements, including, but not limited to, those relating to CIRCOR's future performance. Actual events, performance or results could differ materially from the anticipated events, performance or results expressed or implied by such forward-looking statements. BEFORE MAKING ANY INVESTMENT DECISIONS REGARDING OUR COMPANY, WE STRONGLY ADVISE YOU TO READ THE SECTION ENTITLED "RISK FACTORS" IN OUR MOST RECENT ANNUAL REPORT ON FORM 10-K AND SUBSEQUENT REPORTS ON FORMS 10-Q AND 10-Q/A, WHICH CAN BE ACCESSED UNDER THE "INVESTORS" LINK OF OUR WEBSITE AT [WWW.CIRCOR.COM](http://WWW.CIRCOR.COM). We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.*