

Risk Factors Comparison 2025-03-03 to 2024-02-26 Form: 10-K

Legend: **New Text** ~~Removed Text~~ Unchanged Text **Moved Text** Section

Gorman- Rupp' s business and financial performance are subject to various risks and uncertainties, some of which are beyond its control. In addition to the risks discussed elsewhere in this Form 10- K, the following risks and uncertainties could materially adversely affect the Company' s business, prospects, financial condition, results of operations, liquidity and access to capital markets. These risks could cause the Company' s actual results to differ materially from its historical experience and from expected results discussed in forward- looking statements made by the Company related to conditions or events that it anticipates may occur in the future. **COMPANY SPECIFIC RISK FACTORS**

Loss of key personnel The Company' s success depends to a significant extent on the continued service of its executive management team and the ability to recruit, hire and retain other key management personnel to support the Company' s growth and operational initiatives and replace executives who retire or resign. Failure to retain key management personnel and attract and retain other highly- skilled personnel could limit the Company' s global growth and ability to execute operational initiatives, or may result in inefficient and ineffective management and operations, which could harm the Company' s revenues, operations and product development efforts and could eventually result in a decrease in profitability.

Intellectual property security The Company possesses a wide array of intellectual property rights, including patents, trademarks, copyrights, and applications for the above, as well as other proprietary information. There is a risk that third parties would attempt to copy, in full or in part, the Company' s products, technologies or industrial designs, or to obtain unauthorized access and use of Company technological know- how or other protected intellectual property rights. Also, other companies could successfully develop technologies, products or industrial designs similar to the Company' s, and thus potentially compete with the Company. From time to time, the Company has been faced with instances where competitors have infringed or unfairly used its intellectual property or taken advantage of its design and development efforts. The ability to protect and enforce intellectual property rights varies across jurisdictions. Competitors **who have attempted, and may in the future** attempt to copy the Company' s products, technologies or industrial designs are becoming more prevalent, particularly in Asia. If the Company is unable to adequately enforce and protect its intellectual property rights, it could adversely affect its revenues and profits and hamper its ability to grow. Competitors and others may also challenge the validity of the Company' s intellectual property or allege that it has infringed their intellectual property, including through litigation. The Company may be required to pay substantial damages if it is determined its products infringe the intellectual property of others. The Company may also be required to develop an alternative, non- infringing product that could be costly and time- consuming, or acquire a license (if available) on terms that are not favorable to it. Regardless of whether infringement claims against the Company are successful, defending against such claims could significantly increase the Company' s costs, divert management' s time and attention away from other business matters, and otherwise adversely affect the Company' s results of operations and financial condition.

Growth through Acquisitions The Company' s historical growth has depended, and its future growth is likely to continue to depend, in part on its acquisition strategy and the successful integration of acquired businesses into existing operations. The Company intends to continue to seek additional domestic and international acquisition opportunities that have the potential to support and strengthen its operations. The Company cannot assure it will be able to successfully identify suitable acquisition opportunities, prevail against competing potential acquirers, negotiate appropriate acquisition terms, obtain financing that may be needed to consummate such acquisitions, complete proposed acquisitions, successfully integrate acquired businesses into existing operations or expand into new markets. In addition, the Company cannot assure that any acquisition, even if successfully integrated, will perform as planned, be accretive to earnings, or prove to be beneficial to the Company' s operations and cash flows. The Company has substantial indebtedness, which may impact the Company' s financial condition and the way it operates its business. The Company has substantial indebtedness. Such indebtedness includes senior secured first lien credit facilities comprised of a \$ ~~350~~ **370** million term loan facility and a \$ 100 million revolving credit facility, and ~~a \$ 90 million~~ **a \$ 30 million** ~~an unsecured senior subordinated term loan facility in an~~ aggregate principal amount of ~~\$ 90 million~~ **6.40 % senior secured notes**. The indebtedness could have important negative consequences, including: • higher borrowing costs resulting from fluctuations in our variable benchmark borrowing rates that have adversely affected, and could in the future adversely affect, our interest rates; • reduced availability of cash for the Company' s operations and other business activities after satisfying interest payments and other requirements under the terms of its debt instruments; • less flexibility to plan for or react to competitive challenges, and a competitive disadvantage relative to competitors that do not have as much indebtedness; • **limiting the Company' s ability to undertake mergers or dispositions of assets, or pay dividends**; • difficulty in obtaining additional financing in the future; • inability to comply with covenants in, and potential for default under, the Company' s debt instruments; • inability to operate our business or to take advantage of business opportunities due to restrictions created from the debt covenants; and • challenges to repaying or refinancing any of the Company' s debt. The Company' s ability to satisfy its debt and other obligations will depend principally upon its future operating performance. As a result, prevailing economic conditions and financial, business, legal and regulatory and other factors, many of which are beyond the Company' s control, may affect its ability to make payments on its debt and other obligations.

Acquisition performance and integration The Company has historically made strategic acquisitions of businesses and may do so in the future in support of its strategy. The success of past and future acquisitions is dependent on the Company' s ability to successfully integrate acquired and existing operations. If the Company is unable to integrate acquisitions successfully, its financial results could suffer. Additional potential risks associated with acquisitions are the diversion of management' s attention from other business concerns, additional debt leverage, the loss of key employees and customers of the

acquired business, the assumption of unknown liabilities, disputes with sellers, and the inherent risk associated with the Company entering new lines of business. ~~The anticipated benefits from the Fill-Rite transaction may not be realized. The Company may not realize the full benefits of the increased sales volume and other benefits that are currently expected to result from the Fill-Rite transaction, or realize these benefits within the time frame that is currently expected. In addition, the benefits of the Fill-Rite transaction may be offset by operating losses relating to changes in material or energy prices, inflationary economic conditions, increased competition, or by other risks and uncertainties. If the Company fails to realize the benefits it anticipates from the Fill-Rite transaction, the Company's results of operations may be adversely affected.~~ Impairment in the value of intangible assets, including goodwill. The Company's total assets reflect goodwill from acquisitions, representing the excess cost over the fair value of the identifiable net assets acquired, including other indefinite-lived and finite-lived intangible assets. Goodwill and other indefinite-lived intangible assets are not amortized but are reviewed annually for impairment as of October 1 or whenever events or changes in circumstances indicate there may be a possible permanent loss of value using either a quantitative or qualitative analysis. Finite-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount may not be recovered through future net cash flows generated by the assets. If future operating performance at one or more of the Company's reporting units were to fall significantly below forecast levels or if market conditions for one or more of its acquired businesses were to decline, the Company could be required to incur a non-cash charge to operating income for impairment. Any impairment in the value of these assets could have an adverse non-cash impact on the Company's reported results of operations.

Defined benefit pension plan settlement expense. The Company sponsors a defined benefit pension plan ("GR Plan") covering certain domestic employees and accrues amounts for funding of its obligations under the plan. The GR Plan allows eligible retiring employees to receive a lump-sum distribution for benefits earned in lieu of annual payments and most of the Company's **eligible** retirees historically have elected this option. Under applicable accounting rules, if the lump-sum distributions made for a plan year exceed an actuarially-determined threshold of the total of the service cost and interest cost for the plan year, the Company at such point would be required to recognize for that year's results of operations settlement expense for the resulting unrecognized actuarial loss. The Company has been required to make such adjustments in prior periods, and, if such non-cash adjustments are necessary in future periods, they may negatively impact the Company's operating results. There was no pension settlement charge recorded in **2024 or 2023**. In **2022 and 2021**, the Company recorded pre-tax non-cash pension settlement charges of \$ 6.4 million ~~and \$ 2.3 million, respectively~~, driven by lump-sum distributions discussed above. See Note 9 to the Consolidated Financial Statements, Pensions and Other Postretirement Benefits.

LIFO inventory method. The majority of the Company's inventories are valued on the last-in, first-out (LIFO) method and stated at the lower of cost or market. Current cost approximates replacement cost, or market, and LIFO cost is determined at the end of each fiscal year based on inventory levels on-hand at current replacement cost and a LIFO reserve. The Company uses the simplified LIFO method, under which the LIFO reserve is determined utilizing the inflation factor specified in the Producer Price Index for Machinery and Equipment – Pumps, Compressors and Equipment, as published by the U. S. Bureau of Labor Statistics. Interim LIFO calculations are based on management's estimate of the expected year-end inflation index and, as such, are subject to adjustment each quarter including the fourth quarter when the inflation index for the year is finalized. If inflation causes the Producer Price Index for Machinery and Equipment – Pumps, Compressors and Equipment to increase in future periods, the LIFO reserve will increase with a corresponding increase to non-cash LIFO expense which may negatively impact the Company's operating results. In **2024, 2023, and 2022**, ~~and 2021~~, the Company recorded pre-tax non-cash LIFO expense of \$ **5.1 million, \$ 6.9 million, and \$ 18.0 million**, ~~and \$ 6.7 million~~, respectively. See Note 4 to the Consolidated Financial Statements, Inventories. As of December 31, ~~2023~~ **2024**, ~~we~~ **the Company** had a LIFO reserve of \$ ~~95-100.4~~ **12** million, which at the current U. S. Corporate tax rate, represents approximately \$ ~~20-21~~ **10** million of income taxes, payment of which is delayed to future dates based upon changes in inventory costs. From time-to-time, discussions regarding changes in U. S. tax laws have included the potential of LIFO being repealed. Should LIFO be repealed, the \$ ~~20-21~~ **10** million of postponed taxes, plus any future benefit realized prior to the date of repeal, would likely have to be repaid over some period of time. Repayment of these postponed taxes will reduce the amount of cash that we would have available to fund our operations, working capital, capital expenditures, acquisitions, or general corporate or other business activities. This could materially and adversely affect our business, financial condition and results of operations.

Family ownership of common equity. A substantial percentage of the Company's common shares is held by various members of the Gorman family and their respective affiliates. Because of this concentrated ownership relative to many other publicly-traded companies, the market price of the Company's common shares may be influenced by lower trading volume and therefore more susceptible to price fluctuations than many other companies' shares. If any one or more of the Company's significant shareholders were to sell all or a portion of their holdings of Company common shares at once or within short periods of time, or there was an expectation that such a sale was imminent, then the market price of the Company's common shares could be negatively affected.

GENERAL RISK FACTORS. Continuation of current and projected future business environment. The overall pump industry is cyclical in nature, and some of its business activity is related to general business conditions in the durable goods and capital equipment markets. Demand for most of the Company's products and services is affected by the level of new capital investment and planned maintenance expenditures by its customers. The level of such investment and expenditures by our customers depends, in turn, on factors such as general economic conditions, availability of credit, economic conditions within their respective industries and expectations of future market behavior. Volatility or sustained increases in prices of commodities such as oil and agricultural products can negatively affect the levels of investment and expenditures of certain customers and result in postponement of capital investment decisions or the delay or cancellation of existing orders. Inflationary economic conditions may further increase prices and exacerbate these risks. Any of these developments may negatively impact the Company's sales. **The effects of recent executive actions and executive orders by the President in connection with, among other areas, energy production, trade, immigration and administrative agencies, as well as any**

tandem regulatory changes pursued by the current administration, are highly uncertain and may adversely impact our business. Highly competitive markets Gorman- Rupp sells its products in highly competitive markets. Maintaining and improving the Company' s competitive position requires periodic investment in manufacturing, engineering, quality standards, marketing, customer service and support, and distribution networks. Even with such investment, the Company may not be successful in maintaining its competitive position. The Company' s competitors may develop products that are superior to its products, or may develop methods of more efficiently and effectively providing products and services, or may adapt more quickly to new technologies or evolving customer requirements. Pricing pressures may require the Company to adjust the prices of its products downward to stay competitive. The Company may not be able to compete successfully with its existing competitors or with new competitors. Failure to compete successfully could negatively impact the Company' s sales, operating margins and overall financial performance. Availability and costs of raw materials and labor The Company could be adversely affected by raw material price volatility or an inability of its suppliers to meet quality and delivery requirements. We are required to maintain sufficient inventories to accommodate the needs of our customers, often with short lead times. Our business could be adversely affected if we fail to source and maintain adequate inventory levels. Raw material and energy expenses are substantial drivers of costs in the manufacture of pumps and changes in these costs are often unpredictable. While the Company manufactures certain parts and components used in its products, the Company' s business requires substantial amounts of raw materials, parts and components to be purchased from suppliers. The availability and prices of raw materials, parts and components purchased from the Company' s suppliers may be subject to curtailment or change due to, among other things, suppliers' allocations to other purchasers, interruptions or delays in production or deliveries by suppliers, changes in exchange rates, tariffs, changes in duty rates and changes in other trade barriers and import and export licensing requirements. The **effects of international trade conflicts between the U. S. and its global trade partners including, without limitation, China, Mexico and Canada, may have an adverse impact on economic conditions, and commodity and raw materials pricing and availability.** The Company' s business depends, in part, upon the adequate recruitment and retention, and continued service of, key managerial, engineering, marketing, sales and technical and operational personnel. Economic conditions may cause an increasingly competitive labor market, which could lead to labor shortages or increased turnover rates within, or increased labor costs to maintain, the Company' s employee base. These considerations may also impact the operations of the Company' s suppliers, who may seek to pass along any increased costs to the Company. Inflationary economic conditions **and tariffs** may further increase these various costs. The Company may not be able to pass along any increased material or labor costs to customers for competitive or other reasons. A change in the availability of, or increases in the costs associated with raw materials, parts and components or labor and workforce could affect our ability to fulfill our customer backlog and materially affect our business, financial condition, results of operations or cash flows. Cybersecurity threats Increased global information technology security threats and more sophisticated and targeted computer crime pose a risk to the security of Gorman- Rupp' s systems and networks and to the confidentiality, availability, and integrity of its data. While the Company attempts to mitigate these risks by employing a number of measures, including employee training, comprehensive monitoring of its networks and systems, and the deployment of backup and protective systems, the Company' s systems, networks, proprietary information, products, solutions and services remain potentially vulnerable to advanced persistent threats. Depending on their nature and scope, such threats could potentially lead to liability for damages or the loss of confidential information including as a result of, but not limited to, the compromising of confidential information relating to customer, supplier, or employee data, improper use of the Company' s systems and networks, manipulation and destruction of data, defective products, production downtimes and operational disruptions which, in turn, could adversely affect Gorman- Rupp' s reputation, competitiveness and results of operations. **Artificial intelligence presents risks and challenges that can impact our business Issues in the development and use of artificial intelligence, combined with an uncertain regulatory environment, may result in reputational harm, liability or other adverse consequences to our business operations. As with many technological innovations, artificial intelligence presents risks and challenges that could impact our business. We work with vendors that incorporate artificial intelligence tools into their offerings and the providers of these artificial intelligence tools may not meet existing or rapidly evolving regulatory or industry standards with respect to privacy and data protection and may inhibit our or our vendors' ability to maintain an adequate level of service and experience. If we, our vendors, or our third- party partners experience an actual or perceived breach or privacy or security incident because of the use of generative artificial intelligence, we may lose valuable intellectual property and confidential information and our reputation and the public perception of the effectiveness of our security measures could be harmed. Further, bad actors around the world use increasingly sophisticated methods, including the use of artificial intelligence, to engage in illegal activities involving the theft and misuse of personal information, confidential information and intellectual property. Any of these outcomes could damage our reputation, result in the loss of valuable property and information and adversely impact our business.** Compliance with, and costs related to, a variety of import and export laws and regulations The Company is subject to a variety of laws and regulations regarding international operations, including regulations issued by the U. S. Department of Commerce Bureau of Industry and Security and various other domestic and foreign governmental agencies. Actual or alleged violations of import- export laws could result in enforcement actions and / or financial penalties. The Company cannot predict the nature, scope or effect of future regulatory requirements to which our international operations and trading practices might be subject or the manner in which existing laws or regulations might be administered or interpreted. Future legislation or regulations could limit the countries in which certain of our products may be manufactured or sold or could restrict our access to, and increase the cost of obtaining, products from foreign sources. Environmental compliance costs and liabilities The Company' s operations and properties are subject to numerous domestic and foreign environmental laws and regulations which can impose operating and / or financial sanctions for violations. Moreover, environmental and sustainability initiatives, practices, rules and regulations are under increasing scrutiny of both governmental and non- governmental bodies and may

require **compel the Company to implement** changes to ~~its~~ the Company's operational practices, standards and expectations and, in turn, increase the Company's compliance costs. Periodically, the Company has incurred, and it expects to continue to incur, operating and capital costs to comply with environmental requirements. The Company monitors its environmental responsibilities, together with trends in the related laws, and believes it is in substantial compliance with current regulations. If the Company ~~is required to incur~~ **incurs** increased compliance costs or violates environmental laws or regulations, future environmental compliance expenditures or liabilities could have a material adverse effect on our financial condition, results of operations or cash flows. Exposure to fluctuations in foreign currency exchange rates The Company is exposed to fluctuations in foreign currency exchange rates, particularly with respect to the Euro, Canadian Dollar, South African Rand and British Pound. Any significant change in the value of these currencies could affect the Company's ability to sell products competitively and control its cost structure, which could have a material effect on its financial condition, results of operations or cash flows. Conditions in foreign countries in which the Company conducts business In ~~2023-2024~~, 25 % of the Company's net sales were to customers outside the United States. The Company expects its international and export sales to continue to be a significant portion of its revenue. The Company's sales from international operations and export sales, and the availability and prices of certain raw materials, parts, and components, are subject, in varying degrees, to risks inherent to doing business outside the United States. These risks include, but are not limited to, the following, some of which are further addressed in our other Risk Factors: • Possibility of unfavorable circumstances arising from host country laws or regulations; • Currency exchange rate fluctuations and restrictions on currency repatriation; • Potential negative consequences from changes to taxation policies; • Disruption of operations from labor or political disturbances, or public health crises; • Changes in tariffs, duty rates, and other trade barriers and import and export licensing requirements; • Increased costs and risks of developing, staffing and simultaneously managing a number of global operations as a result of distance as well as language and cultural differences; and • Insurrections, armed conflicts, terrorism or war. **In particular, the effects on the global economy from international trade conflicts between the U. S. and its global trade partners including, without limitation, China, Mexico and Canada, and any escalation or broadening of armed conflicts in Ukraine and the Middle East, including attacks on shipping vessels in key shipping routes, are uncertain.** Any of these events **or those referenced above** could have an adverse impact on the Company's business and operations. Changes in our tax rates and exposure to additional income tax liabilities Gorman- Rupp is subject to income and other taxes in the United States federal jurisdiction and various local, state and foreign jurisdictions. The Company's future effective income tax rates could be unfavorably affected by various factors, including changes in the tax rates as well as rules and regulations in relevant jurisdictions. In addition, the amount of income taxes paid is subject to ongoing audits by U. S. federal, state and local tax authorities and by non- U. S. authorities. If these audits result in assessments different from amounts recorded, the Company's future financial results may include unfavorable adjustments. **ITEM 1B. UNRESOLVED STAFF COMMENTS**