

# Mueller Water Products Reports Fiscal 2011 First Quarter Results

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February 01, 2011

ATLANTA, Feb 1, 2011 (GlobeNewswire via COMTEX) -- Mueller Water Products, Inc. (NYSE:MWA) today reported net sales of \$287.6 million and a net loss of \$12.1 million for the fiscal 2011 first quarter ended December 31, 2010. Summarized consolidated 2011 first quarter results compared to 2010 first quarter results are as follows:

-- Net sales for the 2011 first quarter were \$287.6 million, down 8.1 percent, compared to \$313.1 million for the 2010 first quarter. The 2010 first quarter included \$24.9 million of net sales of two Anvil businesses divested during the year. Net sales were essentially flat year-over-year, excluding the divested businesses.

-- Loss from operations for the 2011 first quarter was \$4.3 million compared to income from operations for the 2010 first quarter of \$0.3 million. Adjusted loss from operations for the 2011 first quarter was \$2.4 million compared to adjusted income from operations of \$0.7 million for the 2010 first quarter.

-- Net loss per share for the 2011 first quarter was \$0.08 compared to a net loss per share for the 2010 first quarter of \$0.07. Adjusted net loss per share for the 2011 first quarter was \$0.06 compared to an adjusted net loss per share for the 2010 first quarter of \$0.07.

-- Adjusted EBITDA for the 2011 first quarter was \$17.7 million compared to adjusted EBITDA for the 2010 first quarter of \$21.5 million.

"Overall, our financial results for the first quarter were about as we expected. Performance at both U.S. Pipe and Anvil improved on a year-over-year basis and, as anticipated, volume at Mueller Co. was down, which we believe was primarily due to higher inventory levels at our distributors coming into the quarter, coupled with municipal market uncertainty," said Gregory E. Hyland, chairman, president and chief executive officer of Mueller Water Products. "We continued to benefit from manufacturing and other cost reduction actions at U.S. Pipe. Higher sales pricing benefitted all three of our business segments in the first quarter, which offset increased raw material costs.

"In 2011, we expect to realize ongoing benefits from operational savings and reduced fixed costs associated with operational excellence initiatives and our U.S. Pipe plant closure. With rising raw material costs and municipal market uncertainty, we remain cautious with our near-term outlook. As we get closer to the second half of our fiscal

year, which coincides with the construction season, we anticipate that we will see an improvement in volume on a year-over-year basis."

## **First Quarter Consolidated Results**

Net sales for the 2011 first quarter of \$287.6 million decreased \$25.5 million from net sales for the 2010 first quarter of \$313.1 million. Net sales were essentially flat, excluding net sales from two divested Anvil businesses that had net sales of \$24.9 million during the 2010 first quarter. Higher prices across all of our business segments of \$12.8 million were more than offset by net lower shipment volumes of \$14.1 million.

Adjusted loss from operations for the 2011 first quarter of \$2.4 million decreased \$3.1 million from adjusted income from operations for the 2010 first quarter of \$0.7 million. Manufacturing and other cost savings of \$13.7 million and higher sales prices of \$12.8 million were more than offset by higher raw material costs of \$10.0 million, higher per-unit overhead costs due to lower production of \$9.2 million, lower shipment volumes of \$6.3 million and the \$1.6 million prior year gain from the sale of Anvil's business that quarter.

## **First Quarter Segment Results**

### **Mueller Co.**

Net sales for Mueller Co. for the 2011 first quarter of \$129.8 million decreased \$3.5 million from net sales for the 2010 first quarter of \$133.3 million. Lower shipment volumes reduced net sales \$7.9 million, which were partially offset by \$3.7 million of increased net sales due to higher prices.

Adjusted income from operations for the 2011 first quarter of \$8.8 million decreased \$7.2 million from adjusted income from operations for the 2010 first quarter of \$16.0 million. Higher sales prices of \$3.7 million and manufacturing and other cost savings of \$3.2 million were more than offset by higher per-unit overhead costs due to lower production of \$5.4 million, higher raw material costs of \$4.0 million and lower shipment volumes of \$3.0 million.

### **U.S. Pipe**

Net sales for U.S. Pipe for the 2011 first quarter of \$74.4 million decreased \$5.3 million from net sales for the 2010 first quarter of \$79.7 million. Higher prices of \$6.4 million were more than offset by lower shipment volumes of \$11.7 million.

Adjusted loss from operations for the 2011 first quarter of \$9.4 million improved \$2.5 million from the adjusted loss from operations for the 2010 first quarter of \$11.9 million. This improvement was driven by manufacturing and other cost savings of \$7.5 million and higher sales prices of \$6.4 million, which were partially offset by higher per-unit overhead costs due to lower production of \$4.2 million, lower shipment volumes of \$3.7 million and higher raw material costs of \$3.2 million.

## **Anvil**

Net sales for Anvil for the 2011 first quarter of \$83.4 million decreased \$16.7 million from net sales for the 2010 first quarter of \$100.1 million, which included \$24.9 million related to two businesses sold during fiscal 2010. Net sales increased 10.9 percent, excluding the divested businesses. Net sales increased due to higher shipment volumes of \$5.5 million and higher prices of \$2.7 million.

Adjusted income from operations for the 2011 first quarter of \$6.5 million increased \$2.0 million from adjusted income from operations for the 2010 first quarter of \$4.5 million. Manufacturing and other cost savings of \$3.0 million and higher sales prices of \$2.7 million improved operating results. These improvements were partially offset by higher raw material costs of \$2.8 million. Included in the 2010 first quarter adjusted income from operations was a \$1.6 million gain from a business sold during that quarter.

### **Interest Expense, Net**

Interest expense, net for the 2011 first quarter of \$15.9 million decreased \$0.9 million from interest expense, net for the 2010 first quarter. The 2011 first quarter included \$1.9 million of non-cash costs related to interest rate swap contracts. Although these contracts were terminated prior to fiscal 2011, the related costs are being amortized over the original term of the swap contracts. Excluding the \$1.9 million of non-cash interest rate swap costs, interest expense declined due to lower debt levels and a lower effective interest rate during the 2011 first quarter.

### **Income Tax**

The effective income tax rate for the 2011 first quarter was a benefit of 40.1 percent compared to the 2010 first quarter benefit of 35.2 percent. The higher rate in 2011 resulted in an additional benefit of about \$1.0 million primarily related to adjustments of uncertain tax positions.

### **Use of Non-GAAP Measures**

The Company presents adjusted income (loss) from operations, adjusted EBITDA, adjusted net income (loss), adjusted net income (loss) per share, free cash flow and net debt as non-GAAP measures. Adjusted income (loss) from operations represents income (loss) from operations excluding restructuring. Adjusted EBITDA represents income (loss) from operations excluding restructuring, depreciation and amortization. The Company presents adjusted EBITDA because it is a measure management believes is frequently used by securities analysts, investors and interested parties in the evaluation of financial performance. Adjusted net income (loss) and adjusted net income (loss) per share exclude restructuring, certain costs from settled interest rate swap contracts and the income tax effects of the previously mentioned items. These items are excluded because they are not considered indicative of recurring operations. Free cash flow represents cash flow from operating activities less capital expenditures. It is presented as a measurement of cash flow because it is commonly used by the investment community. Net debt represents total debt less cash and cash equivalents. Net debt is commonly used by the investment community as a measure of indebtedness. Adjusted income (loss) from

operations, adjusted EBITDA, adjusted net income (loss), adjusted net income (loss) per share, free cash flow and net debt have limitations as analytical tools, and securities analysts, investors and interested parties should not consider any of these non-GAAP measures in isolation or as a substitute for analysis of the Company's results as reported under accounting principles generally accepted in the United States ("GAAP").

A reconciliation of non-GAAP to GAAP results is included as an attachment to this press release and has been posted online at [www.muellerwaterproducts.com](http://www.muellerwaterproducts.com).

## **Conference Call Webcast**

Mueller Water Products' quarterly earnings conference call will take place Wednesday, February 2, 2011 at 9:00 a.m. EST. Mueller Water Products' chairman, president and chief executive officer, Gregory E. Hyland, and members of the Company's leadership team will discuss the Company's recent financial performance and respond to questions from financial analysts. Mueller Water Products invites interested investors to listen to the call and view the accompanying slide presentation, which will be carried live on its website at [www.muellerwaterproducts.com](http://www.muellerwaterproducts.com).

Investors interested in listening to the call should log on to the website several minutes before the start of the call. After selecting the presentation icon, investors should follow the instructions to ensure their systems are set up to hear the event and view the accompanying presentation slides.

## **Safe Harbor Statement**

This press release contains certain statements that may be deemed "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All statements that address activities, events or developments that we intend, expect, plan, project, believe or anticipate will or may occur in the future are forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements we make regarding benefits we expect to realize from operational savings, reduced fixed costs associated with operational excellence initiatives and our U.S. Pipe plant closure and the impact of these factors on our businesses. Forward-looking statements are based on certain assumptions and assessments made by us in light of our experience and perception of historical trends, current conditions and expected future developments. Actual results and the timing of events may differ materially from those contemplated by the forward-looking statements due to a number of factors, including regional, national or global political, economic, business, competitive, market and regulatory conditions and the following:

- the spending level for water and wastewater infrastructure;
- the demand level of manufacturing and construction activity;
- our ability to service our debt obligations; and
- the other factors that are described in the section entitled "RISK FACTORS" in Item 1A of our most recently filed Annual Report on Form 10-K.

Undue reliance should not be placed on any forward-looking statements. We do not have any intention or obligation to update forward-looking statements, except as required by

law.

## About Mueller Water Products, Inc.

Mueller Water Products, Inc. manufactures and markets products and services that are used in the transmission and distribution of safe, clean drinking water and in water treatment facilities. Our broad product portfolio includes engineered valves, fire hydrants, pipe fittings, water meters and ductile iron pipe, which are used by municipalities, as well as the residential and non-residential construction industries. With latest 12 months net sales through December 31, 2010 of \$1.3 billion, the Company is comprised of three operating segments: Mueller Co., U.S. Pipe and Anvil. Based in Atlanta, Georgia, the Company employs approximately 4,800 people. The Company's common stock trades on the New York Stock Exchange under the ticker symbol MWA. For more information about Mueller Water Products, Inc., please visit the Company's website at [www.muellerwaterproducts.com](http://www.muellerwaterproducts.com).

### MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

December 31, 2010      September 30, 2010

2010      2010

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(in millions)

Assets:

Cash and cash equivalents \$ 71.9 \$ 83.7

Receivables, net 161.0 202.5

Inventories 267.5 268.4

Deferred income taxes 31.0 30.3

Other current assets 56.7 51.5

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Total current assets 588.1 636.4

Property, plant and equipment, net 258.3 264.4

Goodwill 7.4 --

Identifiable intangible assets, net 624.9 632.4

Other noncurrent assets 34.9 35.0

-----

Total assets \$ 1,513.6 \$ 1,568.2

=====

Liabilities and stockholders' equity:

Current portion of long-term debt \$ 0.8 \$ 0.7

Accounts payable 70.7 93.2

Other current liabilities 72.4 89.8

-----

Total current liabilities 143.9 183.7

Long-term debt 691.7 691.5

Deferred income taxes 164.3 165.5

Other noncurrent liabilities 117.9 122.2

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Total liabilities 1,117.8 1,162.9

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#### Commitments and contingencies

Series A common stock:

600,000,000 shares

authorized;

155,328,301 shares and

154,708,474 shares

outstanding at December 31,

2010

and September 30, 2010,

respectively 1.5 1.5

Additional paid-in capital 1,596.8 1,597.5

Accumulated deficit (1,135.6) (1,123.5)

Accumulated other

comprehensive loss (66.9) (70.2)

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Total stockholders' equity 395.8 405.3

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Total liabilities and

stockholders' equity \$ 1,513.6 \$ 1,568.2

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#### MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

Three months ended

December 31,

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2010 2009

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(in millions, except  
per share amounts)

Net sales \$ 287.6 \$ 313.1

Cost of sales 238.0 257.2

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Gross profit 49.6 55.9

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Operating expenses:

Selling, general and

administrative 52.0 55.2

Restructuring 1.9 0.4

-----

Total operating

expenses 53.9 55.6

-----

Income (loss) from

operations (4.3) 0.3

Interest expense, net 15.9 16.8  
-----

Loss before income taxes (20.2) (16.5)

Income tax benefit (8.1) (5.8)  
-----

Net loss \$ (12.1) \$ (10.7)  
=====

Net loss per share:

Basic \$ (0.08) \$ (0.07)  
=====

Diluted \$ (0.08) \$ (0.07)  
=====

Weighted average shares  
outstanding:

Basic 154.9 154.0  
=====

Diluted 154.9 154.0  
=====

Dividends declared per  
share \$ 0.0175 \$ 0.0175  
=====

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
THREE MONTHS ENDED DECEMBER 31, 2010  
(UNAUDITED)

Accumulated  
Additional other  
comprehensive  
Common paid-in Accumulated  
stock capital deficit loss Total  
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(in millions)

Balance at September 30, 2010 \$ 1.5 \$ 1,597.5 \$ (1,123.5) \$ (70.2) \$ 405.3

Net loss -- -- (12.1) -- (12.1)  
Dividends declared -- (2.7) -- -- (2.7)  
Stock-based compensation -- 1.9 -- -- 1.9  
Stock issued under stock  
compensation plans -- 0.1 -- -- 0.1  
Derivative instruments -- -- -- 1.2 1.2  
Foreign currency translation -- -- -- 1.7 1.7

Minimum pension liability -- -- -- 0.4 0.4  
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Balance at December 31, 2010 \$ 1.5 \$ 1,596.8 \$ (1,135.6) \$ (66.9) \$ 395.8

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MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

Three months ended  
December 31,  
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2010 2009  
-----

(in millions)

Operating activities:

Net loss \$ (12.1) \$ (10.7)

Adjustments to reconcile net loss to net cash  
provided by operating activities:

Depreciation 12.6 13.0

Amortization 7.5 7.8

Stock-based compensation 1.9 2.4

Deferred income taxes 3.0 (1.1)

Interest rate swap contracts 1.9 --

Other, net 1.6 0.3

Changes in assets and  
liabilities:

Receivables 42.2 62.6

Inventories 1.4 20.0

Other current assets and other  
noncurrent assets (11.2) 24.5

Accounts payable and other  
liabilities (43.6) (58.7)

-----

Net cash provided by operating  
activities 5.2 60.1  
-----

Investing activities:

Capital expenditures (6.4) (8.7)

Acquisition of business, net of  
cash acquired (7.9) --

Proceeds from sales of assets 0.6 14.0  
-----

Net cash provided by (used in)  
investing activities (13.7) 5.3  
-----

Financing activities:

Increase (decrease) in  
outstanding checks (1.4) 1.8

Debt borrowings 0.2 --

Debt paid or repurchased -- (2.8)

Payment of deferred financing  
fees (0.3) --

Common stock issued 0.1 0.1

Dividends paid (2.7) (2.7)  
-----

Net cash used in financing  
activities (4.1) (3.6)  
-----

Effect of currency exchange rate



changes on cash 0.8 0.7

-----  
Net change in cash and cash  
equivalents (11.8) 62.5  
Cash and cash equivalents at  
beginning of period 83.7 61.5  
-----

Cash and cash equivalents at end  
of period \$ 71.9 \$ 124.0  
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MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES  
SEGMENT RESULTS AND RECONCILIATION OF GAAP TO NON-GAAP  
PERFORMANCE MEASURES  
(UNAUDITED)  
(in millions, except per share amounts)

Three months ended December 31, 2010  
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Mueller  
Co. U.S. Pipe Anvil Corporate Total  
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GAAP results:

Net sales \$ 129.8 \$ 74.4 \$ 83.4 \$ -- \$ 287.6  
=====

Gross profit (loss) \$ 29.2 \$ (2.4) \$ 22.4 \$ 0.4 \$ 49.6  
Selling, general and  
administrative expenses 20.4 7.0 15.9 8.7 52.0

Restructuring 0.4 0.9 0.6 -- 1.9  
-----

Income (loss) from  
operations \$ 8.4 \$ (10.3) \$ 5.9 \$ (8.3)  
===== (4.3)

Interest expense, net 15.9

Income tax benefit (8.1)  
-----

Net loss \$ (12.1)  
=====

Net loss per diluted  
share \$ (0.08)  
=====

Capital expenditures \$ 3.2 \$ 1.4 \$ 1.4 \$ 0.4 \$ 6.4  
=====

Non-GAAP results:

Adjusted income (loss)  
from operations and  
EBITDA:

Income (loss) from  
operations \$ 8.4 \$ (10.3) \$ 5.9 \$ (8.3) \$ (4.3)

Restructuring 0.4 0.9 0.6 -- 1.9  
-----

Adjusted income (loss)  
from operations 8.8 (9.4) 6.5 (8.3) (2.4)  
Depreciation and

amortization 11.7 4.5 3.7 0.2 20.1

-----  
Adjusted EBITDA \$ 20.5 \$ (4.9) \$ 10.2 \$ (8.1) \$ 17.7

=====

Adjusted net loss:

Net loss \$ (12.1)

Interest rate swap  
settlement costs, net  
of tax 1.2

Restructuring, net of  
tax 1.2

-----

Adjusted net loss \$ (9.7)

=====

Adjusted net loss per  
diluted share \$ (0.06)

=====

Free cash flow:

Net cash provided by  
operating activities \$ 5.2

Capital expenditures (6.4)

-----

Free cash flow \$ (1.2)

=====

Net debt (end of  
period):

Current portion of  
long-term debt \$ 0.8

Long-term debt 691.7

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Total debt 692.5  
Less cash and cash  
equivalents (71.9)

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Net debt \$ 620.6

=====

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES

SEGMENT RESULTS AND RECONCILIATION OF GAAP TO NON-GAAP PERFORMANCE MEASURES  
(UNAUDITED)

(in millions, except per share amounts)

Three months ended December 31, 2009

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Mueller

Co. U.S. Pipe Anvil Corporate Total

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GAAP results:

Net sales \$ 133.3 \$ 79.7 \$ 100.1 \$ -- \$ 313.1

=====

Gross profit (loss) \$ 36.9 \$ (4.0) \$ 23.0 \$ -- \$ 55.9

Selling, general and  
administrative expenses 20.9 7.9 18.5 7.9 55.2

Restructuring 0.1 0.3 -- -- 0.4

-----  
Income (loss) from  
operations \$ 15.9 \$ (12.2) \$ 4.5 \$ (7.9)  
===== 0.3  
Interest expense, net 16.8

Income tax benefit (5.8)

-----  
Net loss \$ (10.7)  
=====

Net loss per diluted  
share \$ (0.07)  
=====

Capital expenditures \$ 3.7 \$ 4.0 \$ 1.0 \$ -- \$ 8.7  
=====

Non-GAAP results:  
Adjusted income (loss)  
from operations and  
EBITDA:  
Income (loss) from  
operations \$ 15.9 \$ (12.2) \$ 4.5 \$ (7.9) \$ 0.3

Restructuring 0.1 0.3 -- -- 0.4

-----  
Adjusted income (loss)  
from operations 16.0 (11.9) 4.5 (7.9) 0.7  
Depreciation and  
amortization 12.4 4.4 3.9 0.1 20.8  
-----

Adjusted EBITDA \$ 28.4 \$ (7.5) \$ 8.4 \$ (7.8) \$ 21.5  
=====

Adjusted net loss:  
Net loss \$ (10.7)  
Restructuring, net of  
tax 0.2  
-----

Adjusted net loss \$ (10.5)  
=====

Adjusted net loss per  
diluted share \$ (0.07)  
=====

Free cash flow:  
Net cash provided by  
operating activities \$ 60.1

Capital expenditures (8.7)

-----  
Free cash flow \$ 51.4  
=====

Net debt (end of  
period):  
Current portion of  
long-term debt \$ 11.7

Long-term debt 7

