

Mueller Water Products Reports Fiscal 2013 Third Quarter Results



July 30, 2013

EPS from Continuing Operations of \$0.10; Adjusted EPS of \$0.08

Net Sales Increase of 8.5 Percent

ATLANTA--(BUSINESS WIRE)-- Mueller Water Products, Inc. (NYSE: MWA) today reported net sales of \$299.4 million and net income of \$14.1 million for the fiscal 2013 third quarter ended June 30, 2013. The following compares 2013 third quarter results from continuing operations with the prior year period. In the third quarter, the Company:

- Increased net sales \$23.5 million to \$299.4 million from \$275.9 million
- Improved adjusted operating income 25.4 percent to \$33.1 million from \$26.4 million
- Increased adjusted net income per diluted share to \$0.08 from \$0.05
- Improved adjusted EBITDA 15.2 percent to \$47.7 million from \$41.4 million
- Generated free cash flow of \$37.7 million, as compared with negative \$3.4 million for the 2012 third quarter

"We are pleased with our third quarter results, with an 8.5 percent increase in net sales and a 25.4 percent increase in adjusted operating income," said Gregory E. Hyland, chairman, president and chief executive officer of Mueller Water Products. "These results reflect our best overall quarter in the past five years with each of our business segments contributing to the improvement. Mueller Co. and Anvil each increased net sales and adjusted operating margins both year-over-year and sequentially.

"Mueller Co. continued to benefit from improved operating leverage and the ongoing recovery of our end markets. Net sales increased 9.1 percent and adjusted operating margin improved 180 basis points in the quarter to 15.3 percent. We also saw a strong increase in net sales for our metering and leak detection products and services in the third quarter, demonstrating the progress we continue to make in the marketplace.

"Anvil had a solid quarter, with net sales up 7.3 percent and adjusted operating income up 24.2 percent year-over-year.

"With our improved operating performance and free cash flow generation, we reduced our net debt leverage to 3.6x at June 30, 2013."

Third Quarter Consolidated Results

Net sales for the 2013 third quarter increased \$23.5 million, or 8.5 percent, to \$299.4 million from 2012 third quarter net sales of \$275.9 million, due primarily to higher shipment volumes.

Adjusted operating income for the 2013 third quarter increased 25.4 percent to \$33.1 million from adjusted operating income of \$26.4 million for the 2012 third quarter. This increase was driven primarily by higher shipment volumes and higher sales prices. Selling, general and administrative expenses increased in the quarter but declined as a percent of net sales to 19.0 percent for the 2013 third quarter from 19.3 percent for the 2012 third quarter.

Third Quarter Segment Results

Mueller Co.

Net sales for the 2013 third quarter increased 9.1 percent to \$199.3 million as compared with \$182.6 million for the 2012 third quarter. This increase was due to higher shipment volumes particularly of our metering products.

Adjusted operating income for the 2013 third quarter improved 23.6 percent to \$30.4 million as compared with \$24.6 million for the 2012 third quarter. Adjusted operating margin for the 2013 third quarter improved 180 basis points to 15.3 percent as compared with 13.5 percent for the 2012 third quarter.

Anvil

Net sales for the 2013 third quarter increased 7.3 percent to \$100.1 million as compared with \$93.3 million for the 2012 third quarter. The increase resulted from higher shipment volumes and higher prices.

Adjusted operating income for the 2013 third quarter improved 24.2 percent to \$12.3 million as compared with \$9.9 million for the 2012 third quarter. Anvil's adjusted operating margin improved 170 basis points to 12.3 percent as compared with 10.6 percent for the 2012 third quarter.

Interest Expense, Net

Interest expense, net for the 2013 third quarter declined \$0.9 million to \$12.7 million from \$13.6 million for the 2012 third quarter, excluding \$1.3 million of non-cash costs for terminated interest rate swap contracts for the 2012 third quarter. This decrease was due to lower levels of total debt outstanding.

Income Taxes

During the 2013 third quarter, income tax expense was \$4.2 million on pre-tax income of \$20.2 million, or an effective income tax rate of 20.8 percent. The 2013 third quarter expense was reduced by \$4.0 million related to a deferred tax asset valuation allowance adjustment. Excluding this adjustment, the effective tax rate for the 2013 third quarter was 40.5 percent and adjusted net income per share was \$0.08.

Use of Non-GAAP Measures

The Company reports its financial results under accounting principles generally accepted in the United States ("GAAP"), as well as through the use of non-GAAP measures. The Company presents adjusted operating income (loss), adjusted operating margin, adjusted EBITDA, adjusted EBITDA margin, adjusted net income (loss), adjusted net income (loss) per diluted share, free cash flow, net debt and net debt leverage as non-GAAP measures. Adjusted operating income (loss) represents operating income (loss) excluding restructuring. This amount divided by net sales is adjusted operating margin. Adjusted EBITDA represents operating income (loss) excluding restructuring, depreciation and amortization. This amount divided by net sales is adjusted EBITDA margin. The Company presents adjusted operating income (loss), adjusted operating margin, adjusted EBITDA and adjusted EBITDA margin because these are measures management believes are frequently used by securities analysts, investors and other interested parties in the evaluation of financial performance. Adjusted net income (loss) and adjusted net income (loss) per diluted share exclude, on an after-tax basis, discontinued operations, restructuring, certain costs from settled interest rate swap contracts, certain tax adjustments and expenses related to the early extinguishment of debt. These items are excluded because they are not considered indicative of recurring operations. Free cash flow represents cash flows from operating activities less capital expenditures from continuing operations. It is presented as a measurement of cash flows because management believes it is commonly used by the investment community. Net debt represents total debt less cash and cash equivalents. Net debt leverage represents net debt divided by trailing 12 months adjusted EBITDA. Net debt and net debt leverage are commonly used by the investment community as measures of indebtedness. These non-GAAP measures have limitations as analytical tools, and securities analysts, investors and other 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 GAAP. These non-GAAP measures may not be comparable to similarly titled measures used by other companies.

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.

Conference Call Webcast

Mueller Water Products' quarterly earnings conference call will take place Wednesday, July 31, 2013 at 9:00 a.m. ET. Members of Mueller Water Products' leadership team will discuss the Company's recent financial performance and respond to questions from financial analysts. A live webcast of the call will be available on the Investor Relations section of the Company's website. Please go to the website (www.muellerwaterproducts.com) at least 15 minutes prior to the start of the call to

register, download and install any necessary software. A replay of the call will be available for 30 days after the call. To access the replay, please dial 1-866-470-7045. The replay will also be available as a webcast on the Investor Relations section of the Company's website.

Forward-Looking Statements

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 recovery in our end markets and the progress we believe Mueller Co.'s metering and leak detection products and services are making in the marketplace. 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 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. (NYSE: MWA) is a leading manufacturer and marketer of products and services used in the transmission, distribution and measurement of water. Our broad product and service portfolio includes engineered valves, fire hydrants, metering products and systems, leak detection and pipe condition assessment. We help municipalities increase operational efficiencies, improve customer service and prioritize capital spending, demonstrating why Mueller Water Products is Where Intelligence Meets Infrastructure®. The piping component systems produced by Anvil help build connections that last in commercial, industrial and oil & gas applications. Visit us at www.muellerwaterproducts.com

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES		
CONDENSED CONSOLIDATED BALANCE SHEETS		
(UNAUDITED)		
	June 30,	September 30,
	2013	2012
(in millions)		

Assets:				
Cash and cash equivalents	\$	69.2	\$	83.0
Receivables, net		167.5		166.1
Inventories		201.4		183.2
Deferred income taxes		29.2		19.6
Other current assets		48.5		38.0
Total current assets		515.8		489.9
Property, plant and equipment, net		144.9		144.7
Identifiable intangible assets		552.5		573.7
Other noncurrent assets		17.2		32.6
Total assets	\$	1,230.4	\$	1,240.9
Liabilities and stockholders' equity:				
Current portion of long-term debt	\$	1.3	\$	1.1
Accounts payable		80.6		84.5
Other current liabilities		68.7		82.8
Total current liabilities		150.6		168.4
Long-term debt		599.6		621.7
Deferred income taxes		139.4		132.8
Other noncurrent liabilities		80.3		86.8
Total liabilities		969.9		1,009.7
Commitments and contingencies				
Common stock: 600,000,000 shares authorized;				
158,037,679 shares and 156,840,648 shares outstanding at June 30,				
2013 and September 30, 2012, respectively		1.6		1.6
Additional paid-in capital		1,585.1		1,587.3

Accumulated deficit	(1,242.7)	(1,270.0)
Accumulated other comprehensive loss	(83.5)	(87.7)
Total stockholders' equity	260.5	231.2
Total liabilities and stockholders' equity	\$ 1,230.4	\$ 1,240.9

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

	Three months ended		Nine months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
	(in millions)		(in millions)	
Net sales	\$ 299.4	\$ 275.9	\$ 827.6	\$ 742.8
Cost of sales	209.4	196.3	603.2	548.3
Gross profit	90.0	79.6	224.4	194.5
Operating expenses:				
Selling, general and administrative	56.9	53.2	159.0	150.3
Restructuring	0.2	0.7	1.3	2.0
Total operating expenses	57.1	53.9	160.3	152.3
Operating income	32.9	25.7	64.1	42.2
Interest expense, net	12.7	14.9	39.0	46.1
Loss on early extinguishment of debt	-	1.5	1.4	1.5
Income (loss) before income taxes	20.2	9.3	23.7	(5.4)

Income tax expense ^{(a)(b)}	4.2	3.4	5.1	4.1
Income (loss) from continuing operations	16.0	5.9	18.6	(9.5)
Income (loss) from discontinued operations, net of tax	(1.9)	3.9	8.7	(102.4)
Net income (loss)	<u>\$ 14.1</u>	<u>\$ 9.8</u>	<u>\$ 27.3</u>	<u>\$ (111.9)</u>
Net income (loss) per basic share:				
Continuing operations	\$ 0.10	\$ 0.04	\$ 0.12	\$ (0.06)
Discontinued operations	(0.01)	0.02	0.05	(0.66)
Net income (loss)	<u>\$ 0.09</u>	<u>\$ 0.06</u>	<u>\$ 0.17</u>	<u>\$ (0.72)</u>
Net income (loss) per diluted share:				
Continuing operations	\$ 0.10	\$ 0.04	\$ 0.12	\$ (0.06)
Discontinued operations	(0.01)	0.02	0.05	(0.66)
Net income (loss)	<u>\$ 0.09</u>	<u>\$ 0.06</u>	<u>\$ 0.17</u>	<u>\$ (0.72)</u>
Weighted average shares outstanding:				
Basic	<u>158.0</u>	<u>156.7</u>	<u>157.6</u>	<u>156.4</u>
Diluted	<u>160.7</u>	<u>158.0</u>	<u>160.0</u>	<u>156.4</u>
Dividends declared per share	<u>\$ 0.0175</u>	<u>\$ 0.0175</u>	<u>\$ 0.0525</u>	<u>\$ 0.0525</u>

(a) Income tax expense for the three and nine months ended June 30, 2013 included income tax benefits of \$4.0 million and \$4.5 million, respectively, related to the release of deferred tax asset valuation allowances originally charged to discontinued operations.

(b) Due to the loss incurred on the disposition of our former U.S. Pipe segment, income tax expense for the nine months ended June 30, 2012 included a \$5.9 million valuation

allowance charge related to deferred tax asset balances at September 30, 2011 that was allocated to continuing operations.

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES		
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS		
(UNAUDITED)		
	Nine months ended	
	June 30,	
	2013	2012
	(in millions)	
Operating activities:		
Net income (loss)	\$ 27.3	\$ (111.9)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
(Income) loss from discontinued operations	(8.7)	102.4
Income (loss) from continuing operations	18.6	(9.5)
Depreciation	22.3	23.2
Amortization	22.1	22.0
Stock-based compensation	5.6	3.8
Deferred income taxes	3.5	12.9
Early extinguishment of debt	1.4	1.5
Retirement plans	3.1	4.1
Interest rate swap contracts	-	4.3
Other, net	1.8	2.1
Changes in assets and liabilities:		
Receivables	(2.4)	(9.2)
Inventories	(19.0)	(21.0)

Other assets	(0.1)	(0.7)
Liabilities	(14.1)	(9.0)
Net cash provided by operating activities		
from continuing operations	42.8	24.5
Investing activities:		
Capital expenditures	(23.0)	(19.5)
Acquisition of technology	(1.1)	0.5
Proceeds from the sale of assets	0.1	0.4
Net cash used in investing activities		
from continuing operations	(24.0)	(18.6)
Financing activities:		
Debt paid	-	(34.0)
Early retirement of debt	(23.2)	(23.2)
Dividends paid	(8.3)	(8.2)
Common stock issued	2.3	0.7
Shares retained for employee taxes	(1.5)	(0.4)
Payment of deferred financing fees	(0.7)	-
Other	0.2	0.7
Net cash used in financing activities		
from continuing operations	(31.2)	(64.4)
Net cash flows from discontinued operations:		
Operating activities	(4.1)	(36.6)
Investing activities	4.5	87.4
Net cash provided by discontinued operations	0.4	50.8
Effect of currency exchange rate changes on cash	(1.8)	0.4

Net change in cash and cash equivalents	(13.8)	(7.3)
Cash and cash equivalents at beginning of period	83.0	61.0
Cash and cash equivalents at end of period	\$ 69.2	\$ 53.7

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES

SEGMENT RESULTS AND RECONCILIATION OF GAAP TO NON-GAAP PERFORM

(UNAUDITED)

(dollars in millions, except per share amounts)

	Quarter ended J	
	Mueller Co.	Anvil
GAAP results:		
Net sales	\$ 199.3	\$ 100.1
Gross profit	\$ 59.4	\$ 30.6
Selling, general and administrative expenses	29.0	18.3
Restructuring expenses	0.2	-
Operating income (loss)	\$ 30.2	\$ 12.3
Interest expense, net		
Income tax expense		
Income from continuing operations		
Loss from discontinued operations, net of tax		
Net income		
Net income per diluted share:		
Continuing operations		
Discontinued operations		
Net income		

Capital expenditures	\$ 6.3	\$ 2.3
Non-GAAP results:		
Adjusted operating income (loss) and EBITDA:		
Operating income (loss)	\$ 30.2	\$ 12.3
Restructuring	0.2	-
Adjusted operating income (loss)	30.4	12.3
Depreciation and amortization	10.9	3.6
Adjusted EBITDA	\$ 41.3	\$ 15.9
Adjusted operating margin	15.3%	12.3%
Adjusted EBITDA margin	20.7%	15.9%
Adjusted net income:		
Net income		
Discontinued operations, net of tax		
Restructuring, net of tax		
Deferred tax asset valuation allowance adjustment		
Adjusted net income		
Adjusted net income per diluted share		
Free cash flow:		
Net cash provided by operating activities		
Less capital expenditures		
Free cash flow		
Net debt (end of period):		
Current portion of long-term debt		
Long-term debt		
Total debt		
Less cash and cash equivalents		

Net debt
Adjusted EBITDA:
Current quarter
Three prior quarters
Adjusted EBITDA
Net debt leverage (net debt divided by adjusted EBITDA)

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES			
SEGMENT RESULTS AND RECONCILIATION OF GAAP TO NON-GAAP PERFORMANCE			
(UNAUDITED)			
(dollars in millions, except per share amounts)			
	Quarter ended June 30,		
	Mueller Co.	Anvil	Corporation
GAAP results:			
Net sales	\$ 182.6	\$ 93.3	\$ 275.9
Gross profit	\$ 51.6	\$ 28.0	\$ 79.6
Selling, general and administrative expenses	27.0	18.1	8.1
Restructuring expenses	0.7	-	-
Operating income (loss)	\$ 23.9	\$ 9.9	\$ (8.6)
Interest expense, net			
Loss on early extinguishment of debt			
Income tax expense			
Income from continuing operations			
Income from discontinued operations, net of tax			
Net income			

Net income per diluted share:			
Continuing operations			
Discontinued operations			
Net income			
Capital expenditures	\$ 4.8	\$ 2.6	\$
Non-GAAP results:			
Adjusted operating income (loss) and EBITDA:			
Operating income (loss)	\$ 23.9	\$ 9.9	\$ (8.
Restructuring	0.7	-	
Adjusted operating income (loss)	24.6	9.9	(8.
Depreciation and amortization	11.3	3.6	0.
Adjusted EBITDA	\$ 35.9	\$ 13.5	\$ (8.
Adjusted operating margin	13.5%	10.6%	
Adjusted EBITDA margin	19.7%	14.5%	
Adjusted net income:			
Net income			
Discontinued operations, net of tax			
Loss on early extinguishment of debt, net of tax			
Interest rate swap settlement costs, net of tax			
Restructuring, net of tax			
Adjusted net income			
Adjusted net income per diluted share			
Free cash flow:			
Net cash provided by operating activities			
Less capital expenditures			
Free cash flow			

Adjusted EBITDA:
Current quarter
Three prior quarters
Adjusted EBITDA

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES		
SEGMENT RESULTS AND RECONCILIATION OF GAAP TO NON-GAAP PERFORM		
(UNAUDITED)		
(dollars in millions, except per share amounts)		
	Nine months ended	
	Mueller Co.	Anvil
GAAP results:		
Net sales	\$ 538.5	\$ 289.1
Gross profit	\$ 142.8	\$ 81.6
Selling, general and administrative expenses	80.1	54.2
Restructuring expenses	1.2	0.1
Operating income (loss)	\$ 61.5	\$ 27.3
Interest expense, net		
Loss on early extinguishment of debt		
Income tax expense		
Income from continuing operations		
Income from discontinued operations, net of tax		
Net income		
Net income per diluted share:		
Continuing operations		
Discontinued operations		

Net income		
Capital expenditures	\$ 14.6	\$ 8.3
Non-GAAP results:		
Adjusted operating income (loss) and EBITDA:		
Operating income (loss)	\$ 61.5	\$ 27.3
Restructuring	1.2	0.1
Adjusted operating income (loss)	62.7	27.4
Depreciation and amortization	33.5	10.6
Adjusted EBITDA	\$ 96.2	\$ 38.0
Adjusted operating margin	11.6%	9.5%
Adjusted EBITDA margin	17.9%	13.1%
Adjusted net income:		
Net income		
Discontinued operations, net of tax		
Restructuring, net of tax		
Loss on early extinguishment of debt, net of tax		
Deferred tax asset valuation allowance adjustment		
Adjusted net income		
Adjusted net income per diluted share		
Free cash flow:		
Net cash provided by operating activities		
Less capital expenditures		
Free cash flow		
Net debt (end of period):		
Current portion of long-term debt		
Long-term debt		

Total debt
Less cash and cash equivalents
Net debt
Adjusted EBITDA:
Current quarter
Three prior quarters
Adjusted EBITDA
Net debt leverage (net debt divided by adjusted EBITDA)

MUELLER WATER PRODUCTS, INC. AND SUBSIDIARIES			
SEGMENT RESULTS AND RECONCILIATION OF GAAP TO NON-GAAP PERFORMANCE			
(UNAUDITED)			
(dollars in millions, except per share amounts)			
	Nine months ended June 30, 2018		
	Mueller Co.	Anvil	Corporate
GAAP results:			
Net sales	\$ 465.2	\$ 277.6	\$ 20.0
Gross profit	\$ 113.7	\$ 80.8	\$ 1.0
Selling, general and administrative expenses	75.0	53.1	2.0
Restructuring expenses	1.9	0.2	(0.1)
Operating income (loss)	\$ 36.8	\$ 27.5	\$ (2.1)
Interest expense, net			
Loss on early extinguishment of debt			
Income tax expense			
Loss from continuing operations			
Loss from discontinued operations, net of tax			

Net loss			
Net loss per diluted share:			
Continuing operations			
Discontinued operations			
Net loss			
Capital expenditures	\$ 12.0	\$ 7.5	\$
Non-GAAP results:			
Adjusted operating income (loss) and EBITDA:			
Operating income (loss)	\$ 36.8	\$ 27.5	\$ (2
Restructuring	1.9	0.2	(
Adjusted operating income (loss)	38.7	27.7	(2
Depreciation and amortization	34.1	10.7	
Adjusted EBITDA	\$ 72.8	\$ 38.4	\$ (2
Adjusted operating margin	8.3%	10.0%	
Adjusted EBITDA margin	15.6%	13.8%	
Adjusted net income:			
Net loss			
Discontinued operations, net of tax			
Interest rate swap settlement costs, net of tax			
Restructuring, net of tax			
Loss on early extinguishment of debt, net of tax			
Valuation allowance against beginning of the year			
deferred taxes			
Adjusted net income			
Adjusted net income per diluted share			

Free cash flow:
Net cash provided by operating activities
Less capital expenditures
Free cash flow

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