Creating Value with an Acquisition: A Case Study

Walter Industries’ Acquisition, IPO & Spin Off of Mueller Water Products

University of Florida | Feb. 2, 2007

Walter Industries, Inc. is a diversified Company – a significant producer of high-quality metallurgical coal and natural gas for worldwide markets and also a leader in financing and affordable homebuilding.
Introduction

• Miles Dearden
  - Sr. Vice President, Treasurer - Walter Industries, Inc.
  - More than 20 years of banking and finance experience, including mergers and acquisitions
  - MBA (University of Florida - ‘83); Bachelor’s Degree - Finance (University of Florida - ’81)
Corporate Treasury Responsibilities

- Maximizing cash efficiency
  - Cash operations
  - Cash forecasting
  - Working capital
- Optimizing investment, credit and asset returns
  - Investment management
  - Customer & supplier financing
  - Pensions
  - Asset efficiency
- Managing risk exposure
  - Financial risks & hedging
  - Insurance programs
  - Business Risks
- Minimizing capital costs
  - Liquidity
  - Debt structure
  - Debt investor relations
  - Bank relations
  - Rating agency relations
Creating Value with an Acquisition: A Case Study

Walter Industries, Inc. – At a Glance (Pre Acquisition)

(LTM as of 12/31/04, $ in millions)

**Consolidated**

Revenue: $1,374.6
Operating Income: 98.8

**U.S. Pipe**
Revenue: $546.6
Op Income: $7.6

Leading producer of ductile iron pipe, restraints, fittings, valves and hydrants

**Natural Resources**
Revenue: $351.4
Op Income: $69.7

Jim Walter Resources is a leading exporter of low-and-mid-vol hard coking coal

Coal-bed methane gas producer

**Homebuilding/Financial Services**
Revenue: $476.6
Op Income: $21.5

$1.7 Billion Mortgage Portfolio

Leading On-Your-Lot Homebuilder in the U.S.
## Sum of Parts Valuation on 4/30/05

<table>
<thead>
<tr>
<th>Section</th>
<th>2005 EBITDA</th>
<th>EV/EBITDA</th>
<th>Enterprise Value (in billions)</th>
<th>Value Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Low</td>
<td>Med.</td>
<td>High</td>
</tr>
<tr>
<td>Natural Resources &amp; Other</td>
<td>$140.0</td>
<td>5.00x</td>
<td>6.00x</td>
<td>7.00x</td>
</tr>
<tr>
<td>U.S. Pipe</td>
<td>$40.0</td>
<td>6.0x</td>
<td>7.0x</td>
<td>8.0x</td>
</tr>
<tr>
<td>Homebuilding</td>
<td>($4.0)</td>
<td>9.00x</td>
<td>10.00x</td>
<td>11.00x</td>
</tr>
</tbody>
</table>

### Book Value

<table>
<thead>
<tr>
<th>Section</th>
<th>Value Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financing</td>
<td>$0.915 - $1.375</td>
</tr>
<tr>
<td>Subtotal</td>
<td>$1.09 - $1.55</td>
</tr>
<tr>
<td>Net Debt</td>
<td>($0.175)</td>
</tr>
<tr>
<td>Equity Value</td>
<td>$0.915 - $1.375</td>
</tr>
<tr>
<td>Shares Outstanding</td>
<td>38 million</td>
</tr>
<tr>
<td>Value Per Share</td>
<td>$24.07 - $36.18</td>
</tr>
<tr>
<td>Target Price</td>
<td>$39.00</td>
</tr>
<tr>
<td>Premium</td>
<td>25%-62%</td>
</tr>
</tbody>
</table>
### Market Value of WLT on 4/30/05

<table>
<thead>
<tr>
<th>Share Price (as of 4/30/05)</th>
<th>Shares Outstanding (in millions)</th>
<th>Equity Value ($, billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$34.30</td>
<td>38.64</td>
<td>$1.325</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash &amp; Equivalents</th>
<th>$0.009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total debt</td>
<td>$0.182</td>
</tr>
<tr>
<td>Enterprise Value</td>
<td>$1.516</td>
</tr>
<tr>
<td>2005 EBITDA</td>
<td>$0.202</td>
</tr>
<tr>
<td>EV/2005 EBITDA</td>
<td>7.5x</td>
</tr>
</tbody>
</table>

Equity Value = Price per share x Shares outstanding

Enterprise Value = Equity Value + Cash & Equivalents + Total Debt
WLT - Stock Performance - 1/1/03-4/30/05
Why is WLT Undervalued?

- Small-Cap (not widely followed)
- Complicated story (difficult to analyze)
- Minimal analyst coverage

Segments
- U.S. Pipe viewed as a commodity business
- Financing is strong performer, but business is difficult to understand
- Homebuilding losing money
- Natural Resources “hidden,” its value not understood
Blue Creek Coal Pricing

$ per metric ton FOB port

$0 $20 $40 $60 $80 $100 $120 $140

2000 2001 2002 2003 2004 2005
Strategies to Unlock Value

- Divestitures
- De-conglomeration; Create “pure play” companies
- IPOs, Spin-offs
- Share repurchases
- Mergers/Acquisitions
Mueller Water Products - Background

• Private company, based in Decatur, Ill.
• Leading North American supplier of water infrastructure and delivery systems
  - Fire hydrants, valves and pipe fittings
  - Well-established and respected brand names
  - Low-cost manufacturing technologies
• Revenues of $1.1 billion \(^{(1)}\)
• Operating profit of $160 million \(^{(1)}\)
  - 14.1 percent operating margin

1) As of June 2005
Acquisition Rationale

**Pros**

- Strong water sector growth trends
- A broad portfolio of products
- Leading, defensible market positions
- Leading specification position and installed base
- Premier independent distribution network
- International growth opportunities
- State-of-the-art manufacturing infrastructure
- Proven acquisition platform
- Seasoned management team

**Cons**

- Is business peaking?
- Potential for foreign competition
- Tied to housing starts
- Customer concentration
Creating Value with an Acquisition: A Case Study

Valuation of Mueller Water Products

<table>
<thead>
<tr>
<th>Valuation Tool</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise Value</td>
<td>$1.7 -$2.0 billion</td>
</tr>
<tr>
<td>2005E EBITDA</td>
<td>$0.231 billion</td>
</tr>
<tr>
<td>EV/2005 EBITDA</td>
<td>7.5x - 8.5x</td>
</tr>
</tbody>
</table>

Began working on acquisition in May 2005
Steps in the M&A Process

- Due diligence
- Synergy analysis (can reduce multiple paid)
- Valuation/Modeling
- Indication of value to sellers
- Seller limits field
- Management presentation
- Detailed due diligence (financial, legal, environmental, Hart-Scott Rodino (HSR) Act)
- Line up acquisition financing
  - Due diligence on buyer and target
- Final bids due
- Key Issues addressed in final bid letter (price, financing, HSR, timing)
Creating Value with an Acquisition: A Case Study

The Players

Walter Industries
- Senior Staff
- Legal
- Accounting
- Investor Relations

Investment Banks
- Banc of America Securities, LLC
- Morgan Stanley
- Lehman Brothers

Legal
- Company Counsel
- Bank Counsel
- Seller’s Counsel

Accounting
- PriceWaterhouseCoopers

Other
- SunTrust Robinson Humphrey
- Goldman Sachs & Co.
- Avondale Partners
- Calyon Securities (USA) Inc.
Creating Value with an Acquisition: A Case Study

Pirate Capital - Conn.-based hedge fund and, at the time, one of WLT’s largest shareholders
  - Owned 5.3% of shares outstanding

Pirate filed letter to WLT Board with the SEC on 5/24/05 urging spin off of Natural Resources

Suggested price at the time ($39.33) was a significant discount to their internal $65 per share valuation

Threatened to “elect a slate of directors at the next annual meeting” if their demands were not met

Appaloosa Management, another hedge fund, and WLT’s largest shareholder at 15% filed a similar letter days later

May 24, 2005

VIA FACSIMILE AND U.S. MAIL

The Board of Directors
Walter Industries, Inc.
4111 West Boy Scout Boulevard
Tampa, Florida 33607

Dear Board Member:

Jolly Roger Fund LP (together with Jolly Roger Offshore Fund LTD and Mint Master Fund Ltd, being referred to as “Pirate Capital”), an investment management firm with a focus on long-term value investing, has acquired a 5.3% interest in Walter Industries, Inc. (“Walter” or the “Company”) and seeks to help unlock the significant unrealized value in the Company’s shares. We were disappointed with the quality of your Chairman’s recent response to our proposal to separate the Natural Resources subsidiary (“Natural Resources”) from the Company’s remaining operations. We are hopeful that the full board of directors (the “Board”) may feel a greater obligation, in light of its fiduciary duties, to more critically evaluate our proposed value-enhancing initiatives.

In our view, the current $39.33 market price of the Company’s shares reflects a significant discount to our internal $65 per share valuation. Our valuation is conservative, as we have not attributed any additional value for potential incremental coal production stemming from the recent Drummond settlement. Our $65 valuation is supported by analysis from both “sell side” analysts covering Walter. In our opinion, the current $39.33 market price reflects the “conglomerate discount” being applied to Walter’s shares due to the complexity of the Natural Resources grouping with the uncomplimentary finance and industrial segments and the underperforming homebuilding subsidiary. Given that Natural Resources is expected to contribute approximately 80% of 2006 EBITDA, we feel that the most efficient manner of bridging this valuation gap would be isolating these assets from the Company’s other operating segments.

We strongly urge the Board to immediately retain a reputable investment bank to consider strategic alternatives to enhance shareholder value, including the spin-off of Natural Resources into a coal master limited partnership and spinning off the finance & homebuilding subsidiaries into a mortgage REIT.
“I think at the end of the day it will require a breakup in some form or fashion. There’s numerous scenarios as to how you would go about that, as well as numerous timetables to achieve it.”

Steven Loukas, Pirate Capital
St. Petersburg Times - 5/25/05
## Pirate Capital’s Valuation - WLT (1)

<table>
<thead>
<tr>
<th>2006E EBITDA</th>
<th>EV/EBITDA</th>
<th>Enterprise Value ($ billions)</th>
<th>Value Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Resources &amp; Other</td>
<td>$439.0</td>
<td>5.25x - 5.5x</td>
<td>$2.30 - $2.41</td>
</tr>
<tr>
<td>U.S. Pipe</td>
<td>$61.0</td>
<td>5.25x</td>
<td>$0.320</td>
</tr>
<tr>
<td>Homebuilding &amp; Financing</td>
<td>$68.0</td>
<td>5.00</td>
<td>$0.340</td>
</tr>
<tr>
<td>Subtotal</td>
<td></td>
<td>5.25x</td>
<td></td>
</tr>
<tr>
<td>Sloss (2)</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Net Debt (3)</td>
<td>n/a</td>
<td>n/a</td>
<td></td>
</tr>
</tbody>
</table>

- **Fully Diluted Shares Outstanding**: 48 million
- **Value Per Share**: $63.27 - $65.56

---

*(1) Management Estimates. Pirate’s actual valuations were $48-$50 for Natural Resources; $7 each for U.S. Pipe and combined Homebuilding and Financing; and $1.50 for Sloss*

*(2) Pirate described Sloss’ value as “nominal”*

*(3) Pirate apparently did not account for debt in their calculation*
While Pirate and Appaloosa were urging WLT to break up the company, Walter Industries executives were working on the $1.9 billion acquisition of Mueller Water Products.

Acquisition hailed “bold and surprising” by St. Petersburg Times.

Wall Street analyst Barbara Allen, (retired) called acquisition “a strong positive” for the Company.

Stock price jumps nearly $3 per share in heaviest day of trading in WLT history.

Pirate, Appaloosa initially “no commented” publicly on the acquisition, but privately were receptive to the acquisition idea.
The Transaction

- Walter Industries acquired Mueller Water Products on June 19, 2005
  - $1.91 billion transaction
    - $860 million in cash
    - $1.05 billion in debt
- Transaction instantly made Walter Industries a major player in the attractive water infrastructure and water transmission industry
Creating Value with an Acquisition: A Case Study

**Structure Overview**

1. Walter acquires Mueller for $1.9B Enterprise Value
2. U.S. Pipe contributed to Mueller, creating $400MM Restricted Payment availability based on FMV of business
3. $400MM distribution from Mueller to Walter for U.S. Pipe contribution; $45 million dividend paid to Walter and $20MM advance from Investment basket
4. $120.9MM HoldCo Notes\* - Assumed (subject to 101 change of control)
5. New $1,195MM Credit Facility
6. New $675MM Credit Facility

---

**Natural Resources**

**Homebuilding & Financial Services**

**Walter Industries, Inc.**

**Mueller Water Products, Inc. (HoldCo)**

**Mueller Group, Inc. (OpCo)**

**U.S. Pipe**

---

\* Net of unamortized discount. Accreted value of $130.2MM.
# Creating Value with an Acquisition: A Case Study

## Walter Industries, Inc.

### LTM as of 6/30/05, $ in millions

#### Sources of Funds

<table>
<thead>
<tr>
<th>来源</th>
<th>金额（百万）</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on Hand</td>
<td>102.2</td>
</tr>
<tr>
<td>Warrant Exercise Proceeds</td>
<td>0.2</td>
</tr>
<tr>
<td>Revolver ($145MM)</td>
<td>0.1</td>
</tr>
<tr>
<td>Term Loan B</td>
<td>1,050.0</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td><strong>$1,152.5</strong></td>
</tr>
</tbody>
</table>

#### Uses of Funds

<table>
<thead>
<tr>
<th>用途</th>
<th>金额（百万）</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend for US Pipe Contribution</td>
<td>400.0</td>
</tr>
<tr>
<td>Restricted Payment Dividend to Walter</td>
<td>45.0</td>
</tr>
<tr>
<td>Refinance Existing Debt</td>
<td>618.0</td>
</tr>
<tr>
<td>Interco Note with Walter</td>
<td>20.0</td>
</tr>
<tr>
<td>Transaction Costs-Acq. &amp; Financing</td>
<td>36.5</td>
</tr>
<tr>
<td>Transaction Costs-Seller Expenses</td>
<td>23.0</td>
</tr>
<tr>
<td>Transaction Bonuses-Mueller Mgmt</td>
<td>10.0</td>
</tr>
<tr>
<td><strong>Total Uses</strong></td>
<td><strong>$1,152.5</strong></td>
</tr>
</tbody>
</table>

(1) Dividend related to acquisition financing, not to shareholders.
(2) Debt, investment banking, legal and other estimated costs.

---

### CAPITALIZATION OVERVIEW - MUELLER/PIPE

<table>
<thead>
<tr>
<th></th>
<th>6/30/05</th>
<th>% of Capital</th>
<th>EBITDA Multiple</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt (including current maturities):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revolving Credit Facility ($145MM)</td>
<td>$0.1</td>
<td>0.0%</td>
<td>0.0x</td>
</tr>
<tr>
<td>Senior Term Loan B</td>
<td>1,050.0</td>
<td>45.7%</td>
<td>3.4x</td>
</tr>
<tr>
<td>Capital Lease Obligations</td>
<td>2.3</td>
<td>0.1%</td>
<td>0.0x</td>
</tr>
<tr>
<td>Total Senior Secured Debt</td>
<td>1,052.4</td>
<td>45.8%</td>
<td>3.4x</td>
</tr>
<tr>
<td>10% Senior Subordinated Notes due 2012</td>
<td>315.0</td>
<td>13.7%</td>
<td>1.0x</td>
</tr>
<tr>
<td>Total OpCo Debt</td>
<td>1,367.4</td>
<td>59.5%</td>
<td>4.5x</td>
</tr>
<tr>
<td>14 3/4% Senior Discount Notes due 2014</td>
<td>120.9</td>
<td>5.3%</td>
<td>0.4x</td>
</tr>
<tr>
<td>Total HoldCo Debt</td>
<td>1,488.3</td>
<td>64.8%</td>
<td>4.9x</td>
</tr>
<tr>
<td>Total Stockholders’ Equity</td>
<td>808.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Capitalization</strong></td>
<td><strong>$2,296.7</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

LTM 6/30/05 Adjusted EBITDA (1) | **$306.1** |

(1) Includes synergies of $19.5MM.
Creating Value with an Acquisition: A Case Study

Walter Industries Structure

**LTM as of 6/30/05, $ in millions**

### Walter Industries, Inc.

#### Sources of Funds

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on Hand</td>
<td>$0.0</td>
</tr>
<tr>
<td>Revolver ($225MM)</td>
<td>33.6</td>
</tr>
<tr>
<td>Term Loan B</td>
<td>450.0</td>
</tr>
<tr>
<td>U.S. Pipe Proceeds</td>
<td>400.0</td>
</tr>
<tr>
<td>Restricted Pmt Proceeds from Mueller</td>
<td>45.0</td>
</tr>
<tr>
<td>Interco Note with Mueller Holding Co</td>
<td>20.0</td>
</tr>
<tr>
<td><strong>Total Sources</strong></td>
<td><strong>$948.6</strong></td>
</tr>
</tbody>
</table>

#### Uses of Funds

<table>
<thead>
<tr>
<th>Use</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of Mueller Water Products</td>
<td>$929.2</td>
</tr>
<tr>
<td>Refinance Existing Revolver</td>
<td>10.0</td>
</tr>
<tr>
<td>Transaction Costs-Walter Financing</td>
<td>9.4</td>
</tr>
<tr>
<td><strong>Total Uses</strong></td>
<td><strong>$948.6</strong></td>
</tr>
</tbody>
</table>

### CAPITALIZATION OVERVIEW - WALTER RESTRICTED

**LTM 6/30/05**

<table>
<thead>
<tr>
<th>Description</th>
<th>PF 6/30/05</th>
<th>% of Capital</th>
<th>EBITDA Multiple</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recourse Debt (including current maturities):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revolving Credit Facility ($225MM)</td>
<td>$33.6</td>
<td>3.3%</td>
<td>0.2x</td>
</tr>
<tr>
<td>Senior Term Loan B</td>
<td>450.0</td>
<td>44.1%</td>
<td>2.7x</td>
</tr>
<tr>
<td>Total Senior Secured Debt</td>
<td>483.6</td>
<td>47.4%</td>
<td>2.9x</td>
</tr>
<tr>
<td>Convertible Senior Subordinated Notes due 2024 (1)</td>
<td>175.0</td>
<td>17.2%</td>
<td>1.1x</td>
</tr>
<tr>
<td>Subordinated Interco Note with Mueller Holding Co</td>
<td>20.0</td>
<td>2.0%</td>
<td>0.1x</td>
</tr>
<tr>
<td>Total Recourse Debt</td>
<td>678.6</td>
<td>66.5%</td>
<td>4.1x</td>
</tr>
<tr>
<td>Total Stockholders’ Equity (2)</td>
<td>341.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Capitalization (3)</td>
<td><strong>$1,020.3</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LTM 6/30/05 EBITDA</td>
<td>$166.2</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) Converts have an economic conversion price of $17.85; WLT stock trading at $46.75 as of 9/27/05.
(2) WLT market cap of $2.0 billion as of 9/27/05, assuming conversion of converts.
(3) Excludes $1.7 billion in non-recourse ABS debt.

(1) Debt, investment banking, legal and other estimated costs.
Creating Value with an Acquisition: A Case Study

WLT - Stock Performance - 1/1/03-2/17/06

WLT Acquires Mueller Water Products

WLT Announces IPO
• Achieved operating synergies of $40 million - $50 million
  • Progress through 9/30/06 reflected annual run rate of approximately $35 million
  • Expect to achieve annual run rate at top end of range by early fiscal 2008

• Plant rationalization programs:
  • Closed U.S. Pipe Chattanooga, TN valve & hydrant facility and transfer of products to Mueller facilities
  • Closed valve & hydrant production and assembly plant in Milton, Ontario and relocated production to existing U.S. facilities
  • Closed valve production facility in Dixon, IL and relocation to other existing Pratt facilities
  • Closed brass hydrant manufacturing facility, James Jones, in Southern California
  • Streamlined and consolidated Columbia, PA foundry operations
  • Closed and relocated Anvil’s Bristol, PA distribution center

Synergy Breakdown

- Consolidate Manufacturing Operations: 74%
- Purchasing: 11%
- Commercial Related Incremental Volume: 15%
- Incremental Volume: 15%
The Initial Public Offering

- Issuer: Mueller Water Products, Inc. (the “Company”)
- Exchange / Symbol: NYSE / MWA
- Offering Size: $400 million
  23.5 million primary shares of Series A common stock
- Structure: Series A - one vote per share
  Series B - eight votes per share (held by Walter)
- Over-Allotment Option: 3.5 million shares (15%)
- Filing Range: $16.00 - $18.00
- Use of Proceeds: Repay existing indebtedness
- Dividend / Yield: $0.07 / 0.4%
- Lock-up: 180 days
- Expected Pricing: Week of May 22nd, 2006
- Bookrunners: Banc of America Securities LLC
  Morgan Stanley
  Lehman Brothers
### Steps in an Initial Public Offering

<table>
<thead>
<tr>
<th>Week</th>
<th>Event</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Organizational Meeting</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td>Review draft of registration statement</td>
<td>All</td>
</tr>
<tr>
<td>2</td>
<td>Continue drafting</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td>Discuss financial projections</td>
<td>Company &amp; Underwriters</td>
</tr>
<tr>
<td></td>
<td>Due diligence</td>
<td>Company, Underwriters, CC, UC</td>
</tr>
<tr>
<td></td>
<td>Exchange listing process</td>
<td>Company, CC</td>
</tr>
<tr>
<td></td>
<td>Auditors comfort letter</td>
<td>Underwriters, UC, Auditors</td>
</tr>
<tr>
<td></td>
<td>New Board composition</td>
<td>Company, CC, Underwriters</td>
</tr>
<tr>
<td>3</td>
<td>Receive audited financials</td>
<td>All</td>
</tr>
<tr>
<td></td>
<td>Finalize underwriting agreement</td>
<td>Company, UC, CC, Underwriters</td>
</tr>
<tr>
<td></td>
<td>Finalize legal due diligence</td>
<td>Company, UC, CC</td>
</tr>
<tr>
<td></td>
<td>Finalize structure (size, dividend policy)</td>
<td>Company, Underwriters</td>
</tr>
<tr>
<td></td>
<td>File registration statement with SEC</td>
<td>CC</td>
</tr>
<tr>
<td>4</td>
<td>Research analyst due diligence</td>
<td>Underwriters</td>
</tr>
<tr>
<td></td>
<td>Prepare road show presentation</td>
<td>Underwriters</td>
</tr>
</tbody>
</table>

*CC = Company Counsel; UC = Underwriter’s Counsel*
Steps in an Initial Public Offering

<table>
<thead>
<tr>
<th>Week</th>
<th>Event</th>
<th>Responsibility</th>
</tr>
</thead>
</table>
| 5-6  | Receive & respond to SEC comments  
Work on road show presentation  
Work on marketing materials  
Finalize analyst models  
Discuss valuation | All  
Underwriters  
Underwriters  
Underwriters  
Company, Underwriters |
| 7-8  | Determine price range  
Re-file S-1 with price range  
Rehearsals with management team | Company, Underwriters  
Company, CC  
Company, Underwriters |
| 9    | Issue press release  
Conduct road show | Company  
Company, Underwriters |

*CC = Company Counsel; UC = Underwriter's Counsel*
## IPO Valuation

<table>
<thead>
<tr>
<th>IPO Share Price</th>
<th>Shares Outstanding (in millions)</th>
<th>Equity Value ($, billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$16.00</td>
<td>114.595</td>
<td>$1.834</td>
</tr>
</tbody>
</table>

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Equivalents</td>
<td>$0.041</td>
<td></td>
</tr>
<tr>
<td>Total debt</td>
<td>$1.131</td>
<td></td>
</tr>
<tr>
<td>Enterprise Value</td>
<td>$2.97</td>
<td></td>
</tr>
<tr>
<td>2005 EBITDA</td>
<td>$0.313</td>
<td></td>
</tr>
<tr>
<td>EV/2005 EBITDA</td>
<td>9.6x</td>
<td></td>
</tr>
</tbody>
</table>
Value Creation

- EBITDA increased due to performance & synergies
- Earnings multiple expansion during October 05 - December 06 time frame primarily due to improving water industry peer multiple valuations
- Able to achieve a higher multiple for U.S. Pipe when combined

<table>
<thead>
<tr>
<th></th>
<th>At Acquisition</th>
<th>Equity</th>
<th>Debt</th>
<th>Enterprise Value (in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mueller Water Products</td>
<td>$0.86</td>
<td>$1.05</td>
<td></td>
<td>$1.91</td>
</tr>
<tr>
<td>U.S. Pipe</td>
<td>$0.40</td>
<td>$0.0</td>
<td></td>
<td>$0.40</td>
</tr>
<tr>
<td>Totals</td>
<td>$1.26</td>
<td>$1.05</td>
<td></td>
<td>$2.31</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>At IPO</th>
<th>Equity</th>
<th>Debt</th>
<th>Enterprise Value (in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mueller Water Products (including U.S. Pipe)</td>
<td>$1.92</td>
<td>$1.05</td>
<td>$2.97</td>
<td></td>
</tr>
</tbody>
</table>

After the IPO, WLT owned 75% of the Mueller Water Products’ equity ($1.79 billion) and had raised another $460 million to de-lever MWA - while maintaining 96% control of the IPO’d business.
• What is a spin-off?
  - Distribution by parent company of shares in a subsidiary
  - Typically tax-free to parent and shareholder
  - Parent company relinquishes control of subsidiary
  - No funds raised by parent company
  - Shareholder will own stock in two separate companies

• WLT sets distribution ratio
  - WLT set a distribution ratio of approximately 1.65 shares of MWA Series B for each share of WLT owned as of the record date

• Spin-off Completed
  - Dec. 14, 2006 to shareholders of record as of Dec. 6, 2006
“Not so fast, my friend”

- Note holder suits
  - Certain convertible note holders filed suit in November 2006 to stop the spin-off, citing a provision in the original indenture
  - Prior to the suits, WLT filed an amendment to the indenture to correct a defective provision in the indenture
    - A formula in the indenture failed to provide a constant conversion ratio for the note holders. The amended indenture corrected the defective provision.

- WLT 2-for-1 stock split announced as a defense measure
  - Increased number of shares illustrated how formula was broken

- WLT eventually settled the litigation with the convertible note holders, paving the way to complete the spin-off

Sources: ESPN.com; Gammatron.net
**Timeline**

### 2005 - 2006

<table>
<thead>
<tr>
<th>MAY</th>
<th>JUN</th>
<th>JUL</th>
<th>AUG</th>
<th>SEP</th>
<th>OCT</th>
<th>NOV</th>
<th>DEC</th>
<th>JAN</th>
<th>FEB</th>
<th>MAR</th>
<th>APR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Negotiations with DLJ Merchant Banking to Acquire Mueller Water Products**
  - Announced Definitive Agreement to Acquire Mueller Water Products
  - Acquisition Receives Hart-Scott-Rodino Act Clearance
  - Greg Hyland Named Chairman and CEO of Walter Industries
  - Walter Industries Announces Acquisition Complete

- **Synergy/Integration Projects**
  - Closure of U.S. Pipe Chattanooga Plant Announced
  - Mueller Water Products Acquires Hunt Industries
  - Mueller Water Products Acquires Valve-Maker CCNE
  - Walter Industries Files Registration Statement for IPO of Mueller Water Series A Shares
  - Walter Industries Announces IPO Price for Mueller Water Series A Shares
  - Walter Industries Announces Closure of Mueller Water’s Milton, Ontario Facility
  - Atlanta Announced as Mueller Water’s Headquarters

### 2006

<table>
<thead>
<tr>
<th>MAY</th>
<th>JUN</th>
<th>JUL</th>
<th>AUG</th>
<th>SEP</th>
<th>OCT</th>
<th>NOV</th>
<th>DEC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Synergy/Integration Projects**
  - Walter Industries Conducts IPO of Mueller Water Products Series A Shares
  - Certain Note holders File Suit to Stop Spin-Off

- **Walter Industries**
  - Conducts IPO of Mueller Water Products Series A Shares
  - 2-1 Split of WLT & Spin-Off of MWA Series B Shares Announced
  - WLT Announces Note holder Litigation Settled

- **Walter Industries**
  - Sets Distribution Ratio and Record Date for Spin-Off
  - Spin-Off Completed
  - 2-1 Split of WLT Rescinded
Creating Value with an Acquisition: A Case Study

WLT - Stock Performance - 1/1/03-12/15/06

- WLT Acquires Mueller Water Products
- WLT Announces IPO
- WLT Conducts Spin-Off of MWA-B
Lessons Learned / Looking Ahead

• Lessons Learned
  - Sometimes a good offense is a good defense
  - Purchased a good business
  - Synergies were key

• Looking ahead
  - WLT continues to evaluate ways to unlock shareholder value
  - Most likely scenario will see separation of Natural Resources from Homebuilding & Financing

Source: Getty Images
Creating Value with an Acquisition: A Case Study
Walter Industries’ Acquisition, IPO & Spin Off of
Mueller Water Products

Walter Industries, Inc. is a diversified Company – a significant producer
of high-quality metallurgical coal and natural gas for worldwide
markets and also a leader in financing and affordable homebuilding.