

# PAUL MUELLER COMPANY SIX-MONTH REPORT

Unaudited

(In thousands)

## CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30		Six Months Ended June 30		Twelve Months Ended June 30	
	2022	2021	2022	2021	2022	2021
Net Sales	\$ 45,977	\$ 49,278	\$ 86,752	\$ 94,557	\$ 176,808	\$ 200,290
Cost of Sales	35,542	33,909	67,403	65,747	137,823	139,159
Gross Profit	\$ 10,435	\$ 15,369	\$ 19,349	\$ 28,810	\$ 38,985	\$ 61,131
Selling, General and Administrative Expense	10,397	11,553	20,637	22,861	41,660	45,027
Goodwill Impairment Expense	-	-	-	-	-	15,397
Operating Income (Loss)	\$ 38	\$ 3,816	\$ (1,288)	\$ 5,949	\$ (2,675)	\$ 707
Interest Expense	(117)	(91)	(505)	(542)	(705)	(825)
PPP Loan Forgiveness	-	-	-	-	1,884	-
Other Income (Expense)	(126)	2,004	138	2,042	940	2,808
Income (Loss) before Provision (Benefit) for Income Taxes	\$ (205)	\$ 5,729	\$ (1,655)	\$ 7,449	\$ (556)	\$ 2,690
Provision (Benefit) for Income Taxes	(56)	949	(384)	1,368	(205)	3,889
Net Income (Loss)	\$ (149)	\$ 4,780	\$ (1,271)	\$ 6,081	\$ (351)	\$ (1,199)
Earnings (Loss) per Common Share - Basic	(\$0.14)	\$4.38	(\$1.17)	\$5.56	(\$0.32)	(\$1.05)
Diluted	(\$0.14)	\$4.38	(\$1.17)	\$5.56	(\$0.32)	(\$1.05)

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Six Months Ended June 30	
	2022	2021
Net Income (Loss)	\$ (1,271)	\$ 6,081
Other Comprehensive Income, Net of Tax:		
Foreign Currency Translation Adjustment	(2,292)	(847)
Comprehensive Income (Loss)	\$ (3,563)	\$ 5,234

## CONSOLIDATED BALANCE SHEETS

	June 30 2022	December 31 2021
Cash and Short-Term Investments	\$ 16,090	\$ 11,281
Accounts Receivable	21,446	25,774
Inventories (FIFO)	56,534	43,309
LIFO Reserve	(20,402)	(16,855)
Inventories (LIFO)	36,132	26,454
Current Net Investments in Sales-Type Leases	21	23
Other Current Assets	3,214	1,814
Current Assets	\$ 76,903	\$ 65,346
Net Property, Plant, and Equipment	39,321	41,250
Right of Use Assets	2,208	2,526
Other Assets	7,414	7,003
Long-Term Net Investments in Sales-Type Leases	191	164
Total Assets	\$ 126,037	\$ 116,289
Accounts Payable	\$ 14,029	\$ 14,470
Current Maturities and Short-Term Debt	1,240	1,330
Current Lease Liabilities	420	483
Advance Billings	34,039	18,595
Other Current Liabilities	10,502	9,096
Current Liabilities	\$ 60,230	\$ 43,974
Long-Term Debt	12,762	14,241
Long-Term Pension Liabilities	16,585	18,036
Other Long-Term Liabilities	2,328	1,848
Lease Liabilities	766	897
Total Liabilities	\$ 92,671	\$ 78,996
Shareholders' Investment	33,366	37,293
Total Liabilities and Shareholders' Investment	\$ 126,037	\$ 116,289

# SELECTED FINANCIAL DATA

	June 30 2022	December 31 2021
Book Value per Common Share	\$30.73	\$34.32
Total Shares Outstanding	1,085,711	1,086,661
Backlog	\$ 141,719	\$ 78,357

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' INVESTMENT

	Common Stock	Paid-in Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
<b>Balance, December 31, 2021</b>	\$ 1,508	\$ 9,708	\$ 72,764	\$ (10,749)	\$ (35,938)	\$ 37,293
<b>Add (Deduct):</b>						
Net Income (Loss)			(1,271)			(1,271)
Other Comprehensive Income (Loss), Net of Tax					(2,292)	(2,292)
Dividends, \$.15 per Common Share			(326)			(326)
Treasury Stock Acquisition				(38)		(38)
<b>Balance, June 30, 2022</b>	\$ 1,508	\$ 9,708	\$ 71,167	\$ (10,787)	\$ (38,230)	\$ 33,366

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
<b>Operating Activities:</b>		
Net Income (Loss)	\$ (1,271)	\$ 6,081
Adjustment to Reconcile Net Income to Net Cash Provided (Required) by Operating Activities:		
Pension Contributions (Greater) Less than Expense	(1,451)	(1,921)
Bad Debt Expense (Recovery)	15	(44)
Depreciation & Amortization	3,028	3,277
(Gain) Loss on Sales of Equipment	(3)	(18)
PPP Loan Forgiveness	-	(1,884)
Change in Assets and Liabilities		
Dec (Inc) in Accts and Notes Receivable	4,313	(4,618)
(Inc) in Cost in Excess of Estimated Earnings and Billings	-	(824)
(Inc) in Inventories	(8,925)	(5,947)
(Inc) Dec in Prepayments	(1,400)	14
(Inc) in Net Investment in Sales-type leases	(25)	(37)
Dec in Other Assets	251	611
(Dec) Inc in Accounts Payable	(441)	757
(Dec) in Accrued Income Tax	(1)	-
Inc (Dec) in Other Accrued Expenses	1,689	(4,061)
Inc in Advanced Billings	15,444	7,944
(Dec) in Billings in Excess of Costs and Estimated Earnings	(281)	(1,982)
Inc in Lease Liability for Operating	238	51
Inc in Lease Liability for Financing	-	43
Principal payments of Lease Liability for Operating	(218)	(137)
(Dec) Inc in Other Long-Term Liabilities	(108)	(47)
<b>Net Cash Provided (Required) by Operating Activities</b>	<b>\$ 10,854</b>	<b>\$ (2,742)</b>
<b>Investing Activities</b>		
Proceeds from Sales of Equipment	3	24
Additions to Property, Plant, and Equipment	(3,828)	(2,188)
<b>Net Cash (Required) for Investing Activities</b>	<b>\$ (3,825)</b>	<b>\$ (2,164)</b>
<b>Financing Activities</b>		
Principal payments of Lease Liability for Financing	(106)	(136)
(Repayment) Proceeds of Short-Term Borrowings, Net	-	(610)
(Repayment) Proceeds of Long-Term Debt	(760)	(843)
Dividends Paid	(326)	-
Treasury Stock Acquisitions	(38)	(4,194)
<b>Net Cash (Required) for Financing Activities</b>	<b>\$ (1,230)</b>	<b>\$ (5,783)</b>
<b>Effect of Exchange Rate Changes</b>	<b>(990)</b>	<b>(653)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 4,809</b>	<b>\$ (11,342)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>11,281</b>	<b>22,943</b>
<b>Cash and Cash Equivalents at End of Quarter</b>	<b>\$ 16,090</b>	<b>\$ 11,601</b>

PAUL MUELLER COMPANY  
SUMMARIZED NOTES TO THE FINANCIAL STATEMENTS

(1) Results of Operations: (In thousands)

- A.** The chart below depicts the net revenue on a consolidating basis for the three months ended June 30.

Three Months Ended June 30		
<i>Revenue</i>	2022	2021
Domestic	\$34,315	\$37,494
Mueller BV	\$12,058	\$12,194
Eliminations	(\$396)	(\$410)
Net Revenue	\$45,977	\$49,278

The chart below depicts the net revenue on a consolidating basis for the six months ended June 30.

Six Months Ended June 30		
<i>Revenue</i>	2022	2021
Domestic	\$62,431	\$70,991
Mueller BV	\$25,038	\$24,221
Eliminations	(\$717)	(\$655)
Net Revenue	\$86,752	\$94,557

The chart below depicts the net revenue on a consolidating basis for the twelve months ended June 30.

Twelve Months Ended June 30		
<i>Revenue</i>	2022	2021
Domestic	\$128,519	\$154,353
Mueller BV	\$49,637	\$47,045
Eliminations	(\$1,348)	(\$1,108)
Net Revenue	\$176,808	\$200,290

The chart below depicts the net income (loss) on a consolidating basis for the three months ended June 30.

Three Months Ended June 30		
<i>Net Income</i>	2022	2021
Domestic	\$237	\$4,766
Mueller BV	(\$386)	\$11
Eliminations	\$0	\$3
Net Income (Loss)	(\$149)	\$4,780

The chart below depicts the net income (loss) on a consolidating basis for the six months ended June 30.

Six Months Ended June 30		
<i>Net Income</i>	2022	2021
Domestic	(\$650)	\$6,448
Mueller BV	(\$622)	(\$383)
Eliminations	\$1	\$16
Net Income (Loss)	(\$1,271)	\$6,081

The chart below depicts the net loss on a consolidating basis for the twelve months ended June 30.

Twelve Months Ended June 30		
<i>Net Income</i>	2022	2021
Domestic	\$230	\$14,180
Mueller BV	(\$604)	(\$15,403)
Eliminations	\$23	\$24
Net Loss	(\$351)	(\$1,199)

**B. Key headlines for the quarter,**

- Backlog increased during the quarter to \$141.7 million.
- Cash has increased \$4.8 million in the first six months. Advanced deposits from customers grew \$15.4 million in line with the increased backlog. Inventories increased (\$8.9 million) to support the backlog as did capital expenditures (\$3.8 million).

- Revenue and profits for the first half of the year were lower than expected as the Company worked through the older backlog that was not adequately priced for the current inflation. Production has been slowed by the shortage or delay of key components.
  - The Company's results have been negatively affected by an increase in the LIFO reserve. Pre-tax earnings were reduced by \$3.5 million year-to-date and \$6.4 million for trailing twelve months. This increase in the reserve is due to inflation, and an increase in inventory to produce the larger backlog.
  - The Company has aggressively marketed referral and bonus programs to attract new workers with some success as new workers are needed for the large backlog.
  - Farmer unrest which started in the Netherlands and has spread to other parts of the EU poses a challenge for Mueller BV.
- C. The following comparisons exclude Mueller Field Operations (MFO) which was sold on December 31, 2021. June 30, 2022 backlog is \$141.7 million compared to \$78.4 million at December 31, 2021 and \$76.1 million at June 30, 2021. Most business unit backlogs are higher led by the pharmaceutical groups. Orders entered for the first six months of 2022 were \$148.4 million compared to \$98.9 for the first six months of 2021. Most of these orders have been priced to account for inflation which should allow for better margins in the second half of 2022.

On July 5, 2022, the Dutch government passed new emission standards that require a 50% reduction in emission of pollutants by 2030. This includes nitrogen oxide and ammonia produced by cow waste. Farmers in the Netherlands are protesting across the country as they feel these new standards will force many farmers to reduce their herds and put many out of business. Approximately 40,000 farmers gathered in protest with many driving their tractors to block food distribution centers and to block or slow traffic. Farmers in other EU countries had similar protests in support of their Dutch counterparts.

The current backlog, sales pipeline, and farms already granted permits before these rules were considered may minimize the impact to the Company for the remainder of the year. However, the current uncertainty may cause farmers to delay capital expenditures on new milk storage equipment until the path forward is decided regarding the new regulations.

- D. Revenue is down from last year at three months, six months and twelve months primarily in the US operations. The reduction in revenue is due primarily to the sale of MFO and lower pharmaceutical revenue since the end, in early 2021, of the last significant pharmaceutical project. There is another large pharmaceutical project in the backlog that should increase revenue in the second half of 2022 into 2023. In the Netherlands, revenue strengthened slightly but was diminished on the consolidated statements by the strengthening dollar.

- E. Similar to revenue, net income is down at three months, six months and twelve months. In the US, the unfavorable variance is primarily from lower earnings from the pharmaceutical groups and a negative effect from the increase in the LIFO reserve. The prior period results also included the \$1.9 million pre-tax profit from the PPP loan forgiveness. On a positive note, the Heat Transfer and the Components groups have collectively grown pre-tax earnings by \$3.3 million for the trailing twelve months.

In the Netherlands, margins are slightly down. The results for the period ending June 30, 2021 were negatively affected by \$15.4 million due to the impairment of goodwill related to the 2008 acquisition of the Dutch subsidiaries.

- F. The pre-tax results for the three months ended June 30, 2022, were unfavorably affected by a \$1.5 million increase in the LIFO reserve. The pre-tax results for the six months ended June 30, 2022, were unfavorably affected by a \$3.5 million increase in the LIFO reserve. The pre-tax results for the twelve months ended June 30, 2022, were unfavorably affected by a \$6.4 million increase in the LIFO reserve. The pre-tax results for the three months ended June 30, 2021, were unfavorably affected by a \$0.3 million increase in the LIFO reserve. The pre-tax results for the six months ended June 30, 2021, were unfavorably impacted by a \$1.1 million increase in the LIFO reserve. The pre-tax results for the twelve months ended June 30, 2021, were unfavorably affected by a \$0.9 million increase in the LIFO reserve.
- G. The consolidated financials are affected by the euro to the dollar exchange rate when consolidating Mueller B.V., the Dutch subsidiary. The month-end euro to dollar exchange rate was 1.19 for June 2021, 1.13 for December 2021, and 1.04 for June 2022.

This press release contains forward-looking statements that provide current expectations of future events based on certain assumptions. All statements regarding future performance growth, conditions, or developments are forward-looking statements. Actual future results may differ materially from those described in the forward-looking statements due to a variety of factors, including, but not limited to, the factors described in the Company's Annual Report under "Safe Harbor for Forward-Looking Statements," which is available at paulmueller.com. The Company expressly disclaims any obligation or undertaking to update these forward-looking statements to reflect any future events or circumstances.

**The accounting policies related to this report and additional management discussion and analysis are provided in the 2021 annual report, available at [www.paulmueller.com](http://www.paulmueller.com).**