



## Quanex Reports Earnings for Fiscal 2001 First Quarter

February 22, 2001

HOUSTON, Feb. 22 /PRNewswire/ -- Quanex Corporation (NYSE: NX) today announced fiscal 2001 first quarter results for the period ending January 31. Sales for the first quarter were \$193.8 million, compared with sales of \$199.3 million for fiscal 2000's first quarter. Net income, excluding a \$.4 million extraordinary gain, was \$3.7 million, representing basic and diluted earnings per share of 27 cents. This compares with net income of \$4.2 million and basic and diluted earnings per share of 29 cents for the same period last year.

### Fiscal First Quarter Business Results

The MACSTEEL(R) Group, Quanex's engineered steel bar business, had first quarter net sales of \$71.6 million versus \$79.7 million for the same period last year. Operating income for the quarter was \$7.3 million, compared with \$11.8 million reported in the prior year's quarter.

The Nichols Aluminum Group, the company's aluminum sheet products business, had first quarter net sales of \$78.8 million versus \$79.7 million for the same period last year. Operating income for the quarter was \$.3 million, compared with \$2.2 million reported in the prior year's quarter.

The Engineered Products Group, Quanex's formed metal products business, had first quarter net sales of \$26.0 million versus \$18.4 million for the same period last year. Operating income for the quarter was \$1.9 million, compared with \$1.8 million reported in the prior year's quarter.

The Piper Impact Group, the company's impact extrusion business, had first quarter net sales of \$22.8 million versus \$26.8 million for the same period last year. Operating income for the quarter was \$1.1 million versus a loss of \$3.5 million reported in the prior year's quarter.

Statements that use the word "expect," "should," "will," "might," or similar words reflecting future expectations or beliefs are forward-looking statements. The following statements are based on current expectations. Actual results or events may differ materially from this release. Factors that could impact future results may include, without limitation, the effect of both domestic and global economic conditions, the impact of competitive products and pricing, and the availability and cost of raw materials. For a more complete discussion of factors that may affect the Company's future performance, please refer to the Company's most recent filing (fiscal 2000 10-K filed January 5, 2001) under the Securities Exchange act of 1934, in particular, the sections titled, "Private Securities Litigation Reform Act" contained therein.

### Commentary

"We continue to experience slower demand for our automotive, building, and construction products during the first quarter of fiscal 2001 versus the first quarter of fiscal 2000," said Vernon E. Oechsle, chairman of the board and chief executive officer of Quanex. "Historically, this is the slowest period of the year for our businesses due to the seasonal nature of our markets, holiday shutdowns, and fewer production days. Making the period more difficult, of course, is the slow economy, particularly in the manufacturing area and a harsher winter than we've experienced in the last few years. When compared to business activity this time last year, demand now is certainly weaker across all product lines."

"MACSTEEL is currently operating at reduced levels but continues to maintain a five-day schedule. The slowing economy continues to negatively impact their primary markets, namely transportation and capital goods. We look for automotive builds in the 15.5 to 16 million range for 2001, down from the record 17.5 million the industry experienced in 2000. We expect only a modest improvement in their overall business activity for the second quarter but do look for an improving marketplace as the year progresses. MACSTEEL continues to maintain market share in its traditional areas and is also selling some bar products outside these markets as well. Given current business conditions, we believe Macsteel's operating results for the second quarter will fall short of last year's second quarter performance."

"Nichols Aluminum is also currently operating at a reduced capacity. Their reduced business activity is seen as a result of severe weather in addition to a general economic slowdown in the building and construction markets. Housing starts, while down from their peak last year, are still relatively strong. We look for more normalized spring season building activity. However, because of the general condition of the economy, we believe their second quarter operating results will trail last year's results."

"Engineered Products business activity remained fairly strong for the first quarter, given the state of the economy. We do, however, see some slowing in the second quarter. The group's results for the quarter also benefited from the acquisitions of Imperial Fabricated Products last year and Temroc Metals this past November. New products at AMSCO have allowed that business to move into more market areas. For the second quarter, we expect this group to show similar operating results compared to last year."

"Piper Impact experienced a much improved first quarter compared to last year. Sales are down versus this time last year as the group included sales at Piper Impact Europe, which was sold in the third quarter of 2000. Comparable net sales for Piper have them ahead about 13% for the first quarter. Meaningful operating improvements in the business allowed the group to report positive operating income, but a slowdown in air bag component sales is expected for Piper in the second half of the year."

### Outlook

The second and fourth quarters are typically the Company's most profitable quarters. The first quarter is historically the least profitable for the reasons given above. For the second quarter, business activity in the Company's primary markets is expected to be down significantly when compared to the second quarter of 2000; hence, operating results are expected to lag the \$0.61 fully diluted earnings per share reported in the second quarter last year.

The Company previously reported full year 2001 earnings guidance (quarterly update, January 19, 2001) indicating that the Company believed it would earn in excess of the \$2.44 fully diluted earnings per share (excluding unusual items) reported for fiscal 2000. At this time, the Company no longer expects to exceed those results but believes its annual results will be near that level.

## Other

In December 1999, Quanex announced a formal program to repurchase up to 2 million shares of the Company's common stock. The Company repurchased 45,900 shares of common stock, of which 20,000 settled in the first quarter. Since inception of the program, Quanex has purchased approximately 880,000 shares at a cost of \$18.0 million.

During the quarter, the Company also purchased \$4.6 million of its 6.88% convertible subordinated debentures for a total of \$3.9 million.

At the annual meeting of Quanex shareholders held February 22, 2001, Carl E. Pfeiffer and Vincent R. Scorsone were elected to the board of directors for terms expiring in 2004.

## Dividend Declared

The Board of Directors declared a regular quarterly dividend of \$0.16 per share on the Company's common stock, payable March 30, 2001, to shareholders of record on March 16, 2001.

## Growth Strategy

Our strategy for enhancing long-term shareholder value will be accomplished through enhanced sales and earnings growth. We will strive to achieve this by consistently earning a cash return in excess of our cost of capital; by being the low cost / high quality producers in our industries; and by investing in internal capital projects and acquisitions that will provide growth and high cash returns.

## Corporate Profile

Quanex is a technological leader in the production of value-added, engineered steel bars; aluminum flat-rolled products; and engineered, formed-metal products for customers in the transportation, capital equipment, packaging, homebuilding and remodeling, defense, and other commercial markets.

## Latest 12 Months Financial Information

(from continuing operations, excluding unusual items)

Sales: \$928.7 million; EBITDA: \$115.0 million; Operating income: \$66.6 million; Net income: \$35.4 million; Basic earnings per share: \$2.61; Quarterly common dividend rate (per share): \$.16; Book value per common share: \$19.9; Long-term debt to capitalization: 45.5%; Return on common equity: 12.5%; Actual number of common shares outstanding: 13,418,102; Common stock price range (52 week hi - low): \$23.69 - \$14.38.

QUANEX CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share data)

	Three months ended January 31	
	2001	2000
	(Unaudited)	
Net sales	\$193,825	\$199,294
Cost of sales	162,667	165,643
Selling, general and administrative expense	11,728	13,282
Depreciation and amortization	11,236	12,162
Operating income	8,194	8,207
Interest expense	(3,968)	(3,330)
Capitalized interest	314	544
Other, net	1,130	1,002
Income before income taxes and extraordinary gain	5,670	6,423
Income tax expense	(1,985)	(2,248)
Income before extraordinary gain	3,685	4,175
Extraordinary gain on early extinguishment of debt, net of income taxes	372	---
Net income	\$4,057	\$4,175
Weighted average common shares outstanding:		
Basic	13,424	14,172
Diluted	13,562	14,360
Earnings per common share:		
Basic:		
Income before extraordinary gain	\$0.27	\$0.29

Extraordinary gain	0.03	---
Total basic net earnings	\$0.30	\$0.29
Diluted:		
Income before extraordinary gain	\$0.27	\$0.29
Extraordinary gain	0.03	---
Total diluted net earnings	\$0.30	\$0.29
Common stock dividends per share	\$0.16	\$0.16

QUANEX CORPORATION INDUSTRY SEGMENT INFORMATION

(In thousands)

	Three months ended	
	January 31	
	2001	2000
	(Unaudited)	
Engineered Steel Bars:		
Net sales	\$71,598	\$79,742
Operating income	\$7,335	\$11,835
Aluminum Mill Sheet Products:		
Net sales	\$78,816	\$79,720
Operating income	\$280	\$2,203
Engineered Products:		
Net sales	\$25,963	\$18,418
Operating income	\$1,933	\$1,847
Piper Impact:		
Net sales	\$22,849	\$26,799
Operating income / (loss)	\$1,144	\$(3,473)
Corporate and Other:		
Net sales	\$(5,401)	\$(5,385)
Operating loss	\$(2,498)	\$(4,205)
Total:		
Net sales	\$193,825	\$199,294
Operating income	\$8,194	\$8,207

QUANEX CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands)

January 31		October 31	
2001	2000	2000	1999
		(Audited)	
		Assets	
\$18,879	\$21,955	\$22,409	\$25,874
94,579	91,816	98,465	87,204
103,625	97,594	101,274	78,463
15,210	13,505	13,798	20,846
232,293	224,870	235,946	212,387
344,362	416,543	338,248	406,841
61,316	47,715	47,539	48,990
26,083	23,812	24,126	22,228
\$664,054	\$712,940	\$645,859	\$690,446
		Liabilities and stockholders' equity	
\$68,910	\$79,004	\$77,339	\$70,187
---	13,462	---	---
41,751	47,615	50,189	54,305
5,552	3,176	3,218	1,103
688	---	---	---
427	9,226	256	10,545
117,328	152,483	131,002	136,140

222,492	188,121	Long-term debt	191,657	179,121
6,601	7,004	Deferred pension credits	7,026	6,691
7,708	7,452	Deferred postretirement welfare benefits	7,634	7,490
26,232	43,531	Deferred income taxes	27,620	43,910
17,369	14,711	Other liabilities	14,423	16,033
397,730	413,302	Total liabilities	379,362	389,385
266,324	299,638	Total stockholders' equity	266,497	301,061
\$664,054	\$712,940	Total liabilities and stockholders' equity	\$645,859	\$690,446

QUANEX CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOW  
(In thousands)

	Three months ended	
	January 31	
	2001	2000
	(Unaudited)	
Operating activities:		
Net income	\$4,057	\$4,175
Extraordinary gain on early extinguishment of debt (net of taxes of \$201)	(372)	---
Depreciation and amortization	11,362	12,300
Noncash income from derivative instruments	(1,064)	---
Deferred income taxes	(41)	30
Deferred pension and postretirement benefits	(351)	273
	13,591	16,778
Decrease in accounts and notes receivable	7,210	811
(Increase) decrease in inventory	292	(6,103)
Increase (decrease) in accounts payable	(10,490)	4,150
Decrease in accrued expenses	(9,819)	(9,642)
Other, net (including income tax refund)	154	8,107
Cash provided by operating activities	938	14,101
Investment activities:		
Acquisition of Golden Aluminum, net of cash acquired	---	(6,406)
Acquisition of Temroc Metals, net of cash acquired	(17,922)	---
Capital expenditures, net of retirements	(11,974)	(14,458)
Cash used by other investment activities	(1,590)	(892)
Cash used by investment activities	(31,486)	(21,756)
Financing activities:		
Bank borrowings, net	33,000	9,169
Purchase of subordinated debentures	(3,942)	---
Purchases of Quanex common stock	(364)	(3,785)
Common dividends paid	(2,167)	(2,296)
Issuance of common stock, net	800	620
Cash used by other financing activities	(309)	(24)
Cash provided by financing activities	27,018	3,684
Effect of exchange rate changes on cash and equivalents	---	52

Decrease in cash	( 3,530)	( 3,919)
Beginning of period cash and equivalents	22,409	25,874
End of period cash and equivalents	\$18,879	\$21,955

SOURCE Quanex Corporation

Web site: <http://www.quanex.com>

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