



Quanex Announces Fiscal Third Quarter 2002 Results

August 29, 2002

Reports Record Third Quarter Diluted EPS of \$.88 excluding a \$.54 Life Insurance Benefit; Company Completes Conversion of Its 6.88% Debentures; Company to Certify Its Third Quarter 10-Q Financial Statements

HOUSTON, Aug. 29 /PRNewswire-FirstCall/ -- Quanex Corporation (NYSE: NX) today announced fiscal third quarter results for the period ended July 31, 2002. Net sales for the quarter were \$266.9 million, 8% higher than a year ago. The Company commented that both the Vehicular Products segment and the Building Products segment reported better operating results for the third quarter versus a year ago. Demand for the Company's vehicular and building products remained strong throughout the period. Operating income and net income for the third quarter were \$25.0 million and \$24.3 million respectively. Net income included a \$9.0 million life insurance benefit resulting from the death of a retired executive. Excluding the benefit, net income was \$15.3 million, up 59% from a year ago. Diluted earnings per share were \$1.42. Excluding the benefit, diluted earnings per share from continuing operations were \$.88, a record for the quarter and 31% higher than a year ago.

Net sales for the third quarter 2001 were \$248.1 million. Operating income and net income were \$18.4 million and \$9.6 million respectively. Diluted earnings per share from continuing operations were \$.67.

Highlights

Regarding the Company's results, Raymond A. Jean, chairman and chief executive officer stated, "Quanex had a great quarter and demand in our two primary markets, light vehicles and housing, remains at strong levels. Industry estimates for 2002 North American light vehicle builds have increased of late to over 16.5 million units, and through July, vehicle builds are up about 7% over last year. Housing starts for the quarter remained strong and are expected to stay in the 1.6 million range for the remainder of the year. Productivity improvements, a better product mix and strong operating leverage enabled us to deliver significant earnings growth.

"The Company continues to improve its strong financial position. During the quarter, about 98% of our 6.88% debentures were converted to common stock. Converting the debentures to stock will not impact our diluted earnings per share but will save the Company approximately \$4 million in interest payments per year. For the first nine months of fiscal 2002, Quanex also paid down \$59 million of bank debt, some \$19 million in this quarter alone, which leaves us with a total debt to capitalization ratio of 18% at quarter-end. Our excellent balance sheet and strong cash flow give us the firepower to support internal growth initiatives and acquisitions.

"The Company will also certify its financial statements with the SEC in accordance with the Sarbanes-Oxley Act of 2002 when we file our third quarter 10-Q," continued Jean. "Quanex has always prided itself on the quality of its financial disclosures and the conservative nature of its accounting. We have no off-balance sheet financing and our cash flow tracks with our reported earnings. We support all logical efforts to restore investor confidence in today's financial marketplace," continued Jean.

Quarterly Financials (\$ in millions, except per share data)

	3rd qtr 2002	3rd qtr 2001	incr (decr)
Net Sales	\$ 266.9	\$ 248.1	7.6%
Operating Income	25.0	18.4	35.9%
Operating Cash Flow*	36.3	29.0	25.2%
Net Income	24.3	9.6	153.1%
Net Income w/o insurance benefit	15.3	9.6	59.4%
EPS: Basic	\$1.56	\$.72	116.7%
EPS: Basic w/o insurance benefit	\$.98	\$.72	36.1%
EPS: Diluted	\$1.42	\$.67	111.9%
EPS: Diluted w/o insurance benefit	\$.88	\$.67	31.3%

*Operating cash flow is defined as operating income adding back depreciation and amortization expenses.

Segment Commentary

VEHICULAR PRODUCTS (\$ in millions)

	3rd qtr 2002	3rd qtr 2001	incr (decr)
Net Sales	\$ 117.4	\$ 114.1	2.9%
Operating Income	14.7	13.7	7.3%

The Vehicular Products segment includes MACSTEEL, NitroSteel, Piper Impact and Temroc Metals. The segment's main driver is North American light vehicle builds.

"Robust North American light vehicle sales and a healthier heavy duty truck market continue to drive the demand for MACSTEEL's engineered steel bar products. The outlook for build units this fiscal year continues to be robust. Both steel mills were down eight days for their regularly scheduled annual maintenance during July and returned to service right on schedule to a six days per week operation. Lean initiatives continue to contribute to the success at MACSTEEL. Both facilities reported record productivity and improved yields for the quarter. The outlook for the fourth quarter at MAC is excellent," said Jean.

"MACSTEEL's new MAC+ turned bar operation at its Jackson facility is currently operating at full capacity. The bar cutting facility at Jackson is fully operational and contributed during the quarter. The new MAC+ line at Fort Smith underwent 'shakedown' in the quarter and we look for operating benefits to kick-in during the fourth quarter. Management expects to have the additional capacity from the Fort Smith project sold out by the end of the calendar year.

"The other businesses within the segment each reported positive operating income for the quarter on lower sales. Piper Impact, the largest of these businesses, faces a greater than anticipated decline in aluminum air bag sales and they are accelerating efforts to backfill this decline with new business," continued Jean.

BUILDING PRODUCTS	(\$ in millions)		
	3rd qtr 2002	3rd qtr 2001	incr (decr)
Net sales	\$ 149.5	\$ 134.0	11.6%
Operating income	14.3	8.7	64.4%

The Building Products segment includes Engineered Products and Nichols Aluminum. The main drivers of the segment are residential housing starts and remodeling expenditures.

"Engineered Products' results for net sales and operating income were best ever third quarter results. In fact, results each quarter this year for Engineered Products have been record-setting. Housing starts have remained robust all year. New products and programs continue to bolster results. On-going productivity improvements throughout the division also contributed to their excellent performance. Excluding the results of Colonial Craft, operating income for the group on a comparable basis was up 13%. As anticipated, Colonial Craft is delivering results that will be accretive this year.

"Nichols Aluminum continues to show good improvement in sequential quarterly results for this year and compared to year ago results. Volume for the group was up almost 10% versus a year ago while operating income was up about 150%. As noted, demand in their primary building and construction market has remained strong, and the pickup in demand from other aluminum markets has helped sheet pricing recover. Combined with a small reduction in scrap costs, Nichols was able to improve their spread compared to a year ago," said Jean.

Outlook

The Company's primary drivers -- vehicle builds, home construction and remodeling expenditures -- are expected to remain at high levels for the remainder of the fiscal year. Along with strong underlying demand in its core markets, earnings growth for 2002 is also being driven by new customer programs, increased market share, improved operating leverage and lean initiatives. Based on this outlook, Quanex continues to expect its diluted earnings per share for fiscal 2002 to be up about 40% over fiscal 2001 diluted earnings of \$2.07.

Other

As of November 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". Under SFAS 142, goodwill is no longer amortized, but is reviewed for impairment annually or more frequently if certain indicators arise. Goodwill amortization for the prior fiscal year ended October 31, 2001 was \$2.3 million, or \$.10 diluted earnings per share.

The Company continues to account for the stock options using the current transition provisions of SFAS No. 123. Accordingly, it does not reflect the option expense in its income statement or earnings per share. However, the Company will disclose the impact on net income and earnings per share in the footnotes to its SEC financial statements. For the third quarter, expensing stock options would have reduced net income by \$347,000 and reduced diluted earnings per share by \$.02.

Dividend Declared

The Board of Directors declared a quarterly dividend of \$.16 per share on the Company's common stock, payable September 30, 2002 to shareholders of record on September 16, 2002.

Corporate Profile

Quanex is an industry-leading manufacturer of engineered materials and components serving the Vehicular Products and Building Products markets.

Latest 12 Months Financial Information (from continuing operations, excluding unusual charges and gains)

Sales: \$976.7 million; Operating income: \$75.8 million; Net income from continuing operations: \$51.7 million; Basic earnings per share: \$3.58; Quarterly common dividend rate (per share): \$.16; Book value per common share: \$24.76; *Return on invested capital: 11.75%; Total debt to capitalization: 18.46%; Return on common equity: 16.57%; Actual number of common shares outstanding: 16,354,614; Common stock price range (52-week hi - low): \$44.20 - \$20.75.

*Return on invested capital is defined as net income + interest expense (after tax) divided by average equity and average debt.

Statements that use the words "expect," "should," "will," "might," or similar words reflecting future expectations or beliefs are forward-looking statements. The statements found above 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 10-K filing (January 4, 2002) under the Securities Exchange Act of 1934, in particular the sections titled, "Private Securities Litigation Reform Act" contained therein.

For further information visit the Company website at www.quanex.com .

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

Three months ended July 31,			Nine months ended July 31,	
2002	2001		2002	2001
\$ 266,891	\$ 248,121	Net sales	\$ 720,634	\$ 668,320
216,469	205,581	Cost of sales	591,882	560,625
		Selling, general		
14,099	13,492	and administrative expense	39,960	38,188
11,292	10,695	Depreciation and amortization	33,884	33,116
25,031	18,353	Operating income	54,908	36,391
(1,070)	(4,129)	Interest expense	(9,179)	(12,412)
346	349	Capitalized interest	1,879	1,095
		Retired executive life insurance		
9,020	---	benefit	9,020	---
(375)	208	Other, net	1,469	2,547
32,952	14,781	Income before income taxes	58,097	27,621
(8,615)	(5,173)	Income tax expense	(17,668)	(9,667)
\$ 24,337	\$ 9,608	Net income	\$ 40,429	\$ 17,954

Weighted average common shares outstanding:

15,560	13,377	Basic	14,303	13,397
16,557	15,428	Diluted	16,093	15,420

Earnings per common share:

\$ 1.56	\$ 0.72	Basic net income per share	\$ 2.83	\$ 1.34
		Diluted net income		
\$ 1.42	\$ 0.67	per share	\$ 2.55	\$ 1.30
		Common stock dividends		
\$ 0.16	\$ 0.16	per share	\$ 0.48	\$ 0.48

QUANEX CORPORATION INDUSTRY SEGMENT INFORMATION
(In thousands)
(Unaudited)

Three months ended July 31,			Nine months ended July 31,	
2002	2001		2002	2001
Vehicular Products:				
\$ 117,416	\$ 114,127	Net sales	\$ 337,489	\$ 318,327
\$ 14,709	\$ 13,717	Operating income	\$ 41,807	\$ 32,092

Building Products:

\$ 149,475	\$ 133,994	Net sales	\$ 383,145	\$ 349,993
\$ 14,330	\$ 8,680	Operating income	\$ 24,347	\$ 14,801

Corporate and Other:

\$	---	\$	---	Intercompany sales elimination	\$	---	\$	---
\$	(4,008)	\$	(4,044)	Corporate charges	\$	(11,246)	\$	(10,502)

Total:

\$	266,891	\$	248,121	Net sales	\$	720,634	\$	668,320
\$	25,031	\$	18,353	Operating income	\$	54,908	\$	36,391

QUANEX CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

July 31,		October 31,	
2002	2001	2001	2000
Assets			
\$1,340	\$31,805	Cash and equivalents	\$29,573 \$22,409
110,684	101,893	Accounts and notes receivable, net	109,706 98,465
26,041	---	Other receivables	---
93,229	91,423	Inventories	83,109 101,274
15,244	14,112	Other current assets	14,490 13,798
246,538	239,233	Total current assets	236,878 235,946
356,754	354,743	Property, plant and equipment, net	357,635 338,248
66,436	60,127	Goodwill, net	59,226 47,539
30,869	44,865	Other assets	43,892 24,126
\$700,597	\$698,968	Total assets	\$697,631 \$645,859
Liabilities and stockholders' equity			
\$81,123	\$77,289	Accounts payable	\$76,831 \$77,339
51,931	48,222	Accrued expenses	50,659 50,189
3,544	3,740	Income taxes payable	1,087 3,218
4,945	3,582	Other current liabilities	5,593 ---
81,434	420	Current portion of long-term debt	420 256
222,977	133,253	Total current liabilities	134,590 131,002
10,203	236,487	Long-term debt	219,608 191,657
6,281	5,158	Deferred pension credits	7,962 7,026
7,848	7,718	Deferred postretirement welfare benefits	7,777 7,634
32,595	25,301	Deferred income taxes	29,282 27,620
15,820	17,605	Other liabilities	18,435 14,423
295,724	425,522	Total liabilities	417,654 379,362
404,873	273,446	Total stockholders' equity	279,977 266,497
\$700,597	\$698,968	Total liabilities and stockholders' equity	\$697,631 \$645,859

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands)
(Unaudited)

Three months ended		Nine months ended	
July 31,	July 31,	July 31,	July 31,
2002	2001	2002	2001

Operating activities:

\$ 24,337	\$ 9,608	Net income	\$ 40,429	\$ 17,954
922	---	Loss (gain) on early extinguishment of debt	922	(573)
(9,020)	---	Retired Executive life insurance benefit	(9,020)	---
11,342	10,779	Depreciation and amortization	34,107	33,454
(43)	(795)	Deferred income taxes	2,437	(2,395)
(116)	(707)	Deferred pension and postretirement benefits	(1,610)	(1,784)
27,422	18,885		67,265	46,656
2,008	6,601	Decrease in accounts and notes receivable	293	3,790
(5,835)	7,457	(Increase) decrease in inventory	(7,722)	12,494
(5,878)	2,518	Increase (decrease) in accounts payable	3,678	(2,111)
1,225	2,487	Increase (decrease) in accrued expenses	(697)	(3,348)
1,543	(121)	Other, net (including income tax refund)	2,718	(1,394)
20,485	37,827	Cash provided by operating activities	65,535	56,087

Investment activities:

82	---	Acquisition of Colonial Craft, net of cash acquired	(17,283)	---
---	---	Acquisition of Temroc Metals, net of cash acquired	---	(17,922)
(7,991)	(16,513)	Capital expenditures, net of retirements	(28,100)	(42,998)
(497)	(2,429)	Cash used by other investment activities	(1,143)	(3,523)
(8,406)	(18,942)	Cash used by investment activities	(46,526)	(64,443)

Financing activities:

(19,000)	15,000	Bank borrowings (repayments), net	(59,000)	47,000
---	(17,273)	Repayment of borrowings against insurance policies	---	(17,273)
---	---	Prepayment of note payable	(7,029)	---
(1,314)	---	Redemption and purchase of subordinated debentures	(1,314)	(3,942)
---	---	Purchases of Quanex common stock	---	(1,990)
(2,600)	(2,147)	Common dividends paid	(7,012)	(6,469)
10,263	283	Issuance of common stock, net	30,716	1,813
(1,986)	(275)	Cash used by other financing activities	(3,603)	(1,387)
(14,637)	(4,412)	Cash provided (used) by financing activities	(47,242)	17,752
(2,558)	14,473	Increase (decrease) in cash	(28,233)	9,396
3,898	17,332	Beginning of period cash and equivalents	29,573	22,409
\$ 1,340	\$ 31,805	End of period cash and equivalents	\$ 1,340	\$ 31,805

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