Quanex
building products

Investor Presentation

June 2017

Safe Harbor Statement

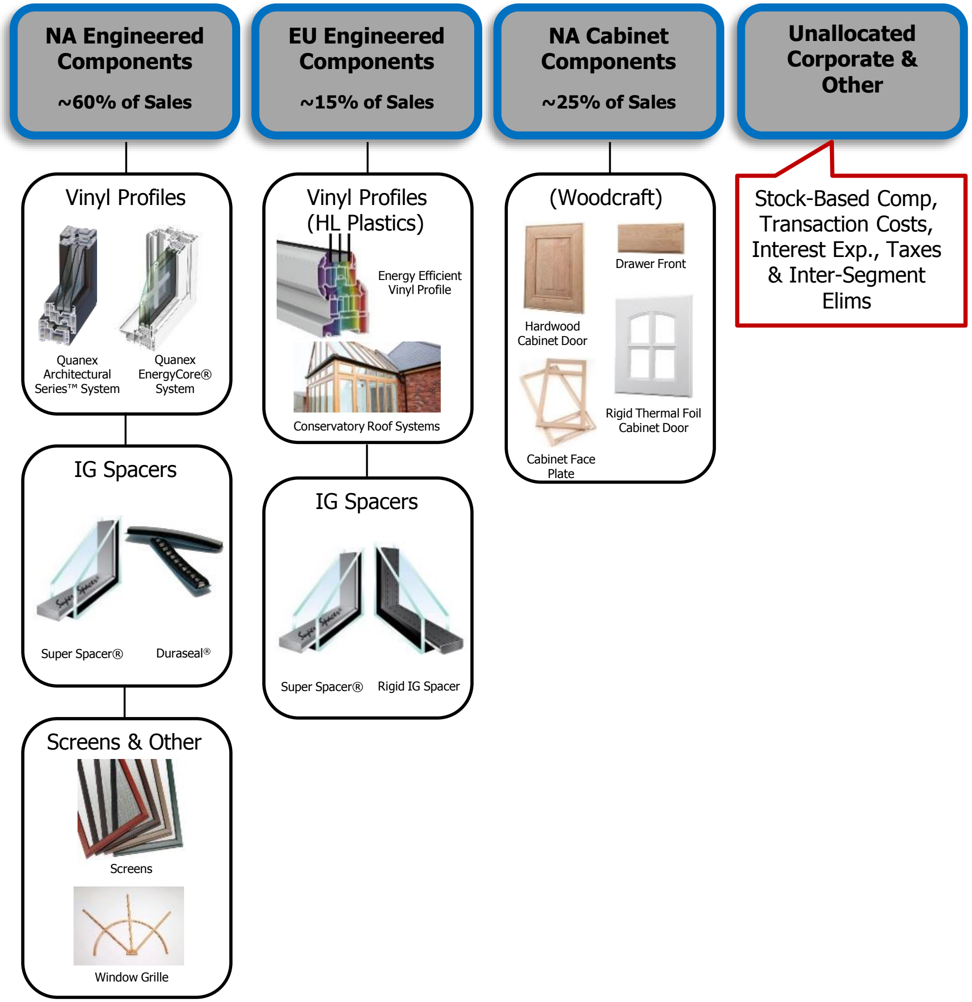
<u>Note on Forward Looking Statements</u>: Statements that use the words "estimated," "expect," "could," "should," "believe," "will," "might," or similar words reflecting future expectations or beliefs are forward-looking statements. The forward-looking statements include, but are not limited to, the Company's future operating results, future financial condition, future uses of cash and other expenditures, expenses and tax rates, expectations relating to Quanex's industry, and the Company's future growth, including any guidance referenced in this presentation. The statements and guidance set forth in this release are based on current expectations. Actual results or events may differ materially from this release. For a complete discussion of factors that may affect Quanex's future performance, please refer to the Company's Annual Report on Form 10-K for the fiscal year ended October 31, 2016, under the sections entitled "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors". Any forward-looking statements in this presentation are made as of the date hereof, and Quanex undertakes no obligation to update or revise any forward-looking statements to reflect new information or events.

<u>Note on Non-GAAP Financial Measures</u>: EBITDA (defined as net income or loss before interest, taxes, depreciation and amortization and other, net, as described in the Company's filings with the Securities and Exchange Commission) is a non-GAAP financial measure that Quanex's management uses to measure its operational performance and assist with financial decision-making. Adjusted EBITDA is EBITDA as further adjusted to exclude non-recurring items such as purchase price inventory step-ups, transaction costs, gain/loss on the sale of fixed assets related to restructuring, one-time employee benefit adjustments and restructuring charges. Divisional EBITDA is EBITDA excluding discontinued operations, corporate costs and ERP related expenses. Free Cash Flow is a non-GAAP measure calculated using cash provided by operating activities less capital expenditures. The Company believes these non-GAAP measures provide a consistent basis for comparison between periods, and will assist investors in understanding Quanex's financial performance when comparing our results to other investment opportunities. While the Company considers EBITDA, Adjusted EBITDA and Divisional EBITDA to be important measures of operating performance, it does not intend for this information to be considered in isolation or as a substitute for net income or other measures prepared in accordance with US GAAP. Due to the high variability and difficulty in predicting certain items that affect GAAP net income (such as unusual gains and losses, fluctuations in foreign currency exchange rates, the impact and timing of potential acquisitions or divestitures and the timing and potential significance of tax considerations), information reconciling forward-looking EBITDA, Adjusted EBITDA and Divisional EBITDA as presented to GAAP financial measures is impossible without unreasonable effort. The presented non-GAAP measures may not be the same as those used by other companies. Quanex does not intend for this information to be considered in isolation or as a substitute for other measures prepared in accordance with U.S. GAAP.

Quanex At-A-Glance

Industry Leading, “Pure Play” Building Products Manufacturer

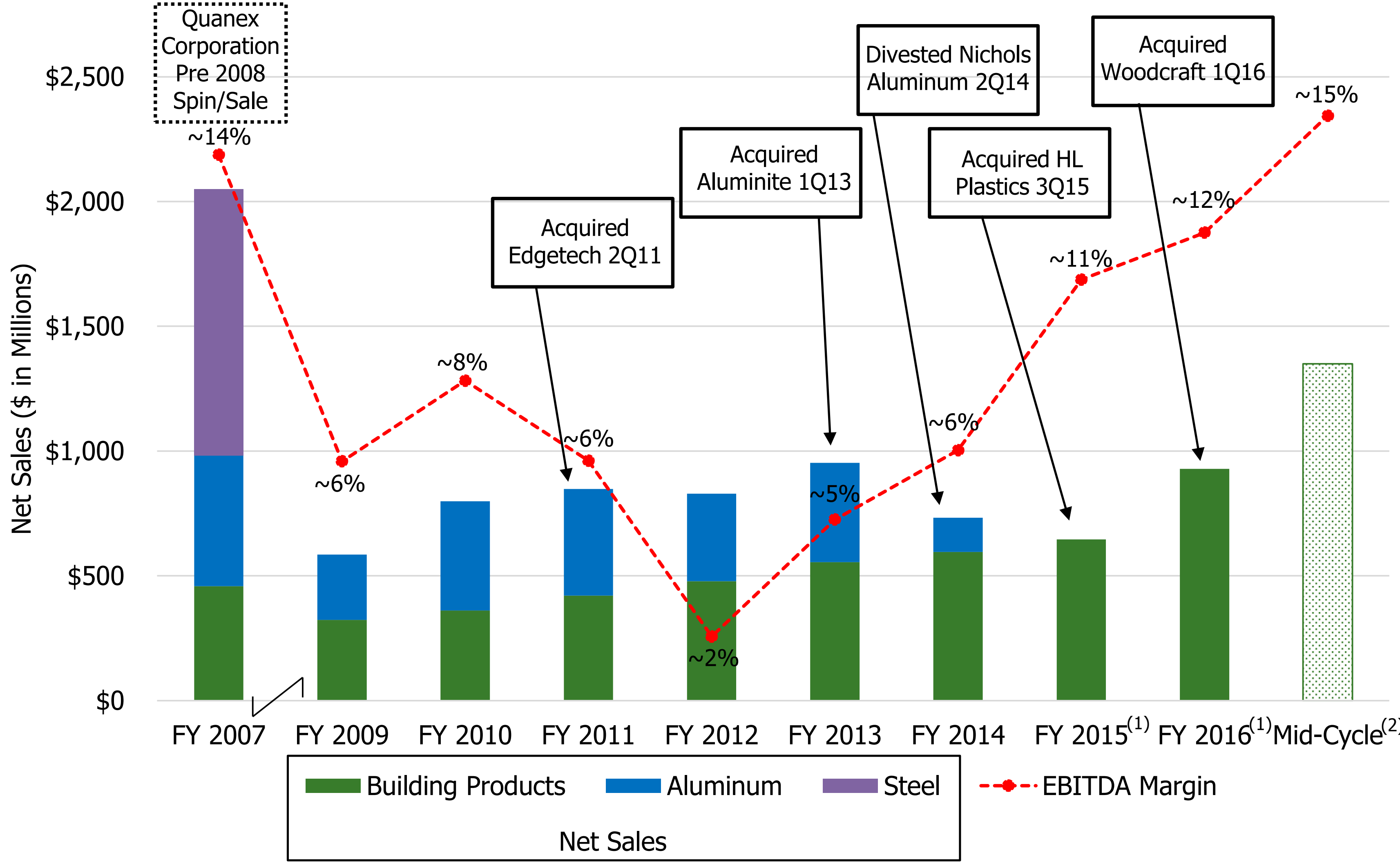
- Quanex is the **largest supplier** of components to OEMs in the building products sector
  - OEMs’ customer base predominately focused on serving **new construction and R&R markets**
- **Manufacturing Facilities:**
  - 35 locations (~3.5 million sq. ft.)
  - Sufficient capacity for growth
- **Key Financials:**
  - FY 2016 Net Sales: $928.2 Million
  - FY 2016 Adjusted EBITDA: $110.3 Million (11.9% margin)
  - Leverage Ratio as of 4.30.17 [1]: 2.7x
- **Corporate Headquarters:** Houston, TX
- **Employees:** ~4,000
- **Fiscal Year-End:** October 31
- **NYSE Ticker:** NX
- **Market Cap as of 6.16.17:** ~$730 Million



(1) Leverage Ratio is defined as net debt/LTM Adjusted EBITDA.

Evolution of Quanex

Significant Improvement in Profitability – "Pure Play" Building Products Manufacturer



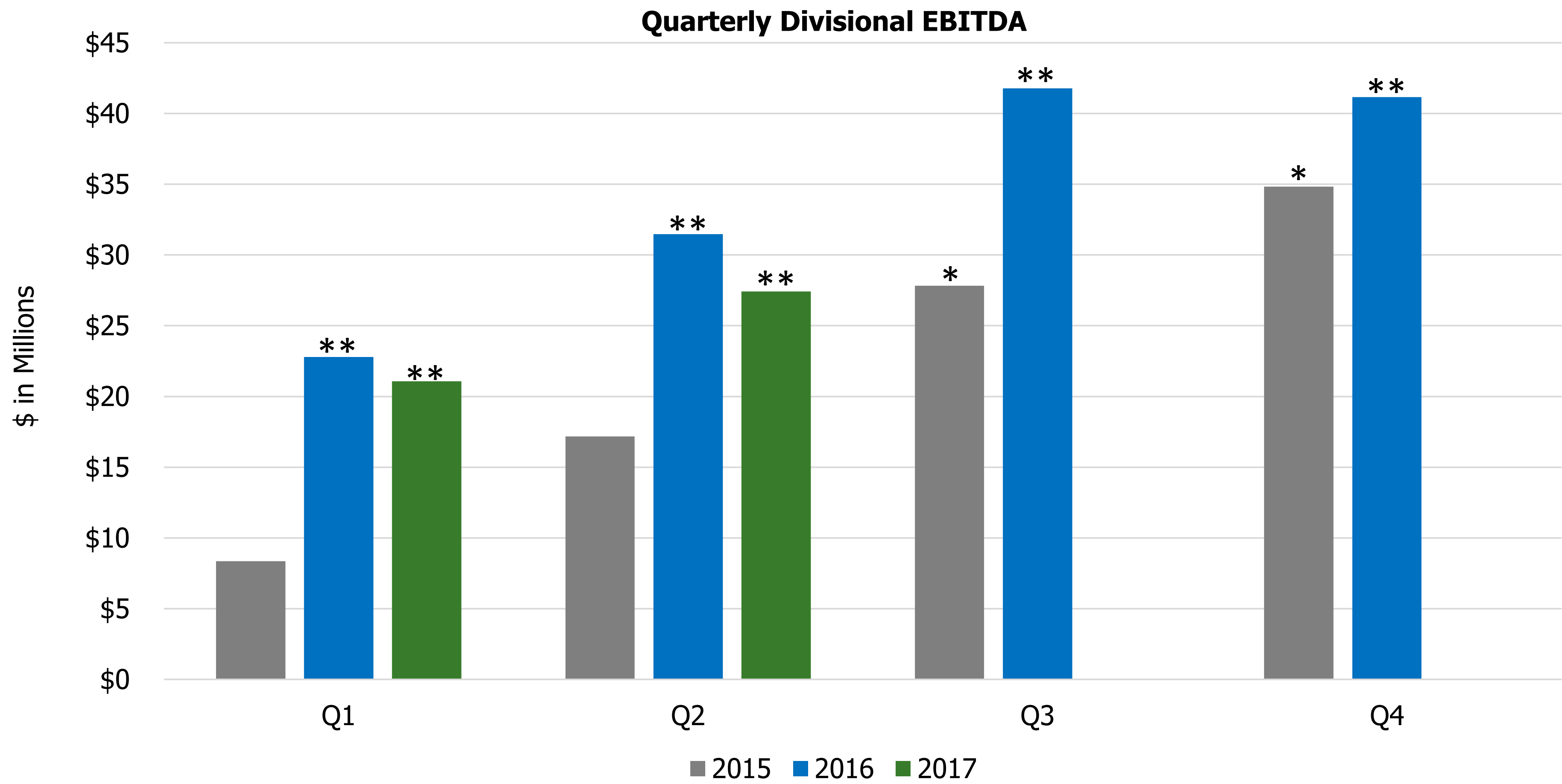
(1) EBITDA adjusted to exclude non-recurring items such as transaction costs, purchase price accounting inventory step ups and restructuring charges (Adjusted EBITDA).
(2) Mid-cycle defined as the point in time when U.S. housing starts recover to ~1.5 million per year and U.S. window shipments recover to ~65 million per year.

Seasonality

Fiscal 2H Historically Stronger

1st Half
2017E ~35% Annual Divisional EBITDA

2nd Half
2017E ~65% Annual Divisional EBITDA

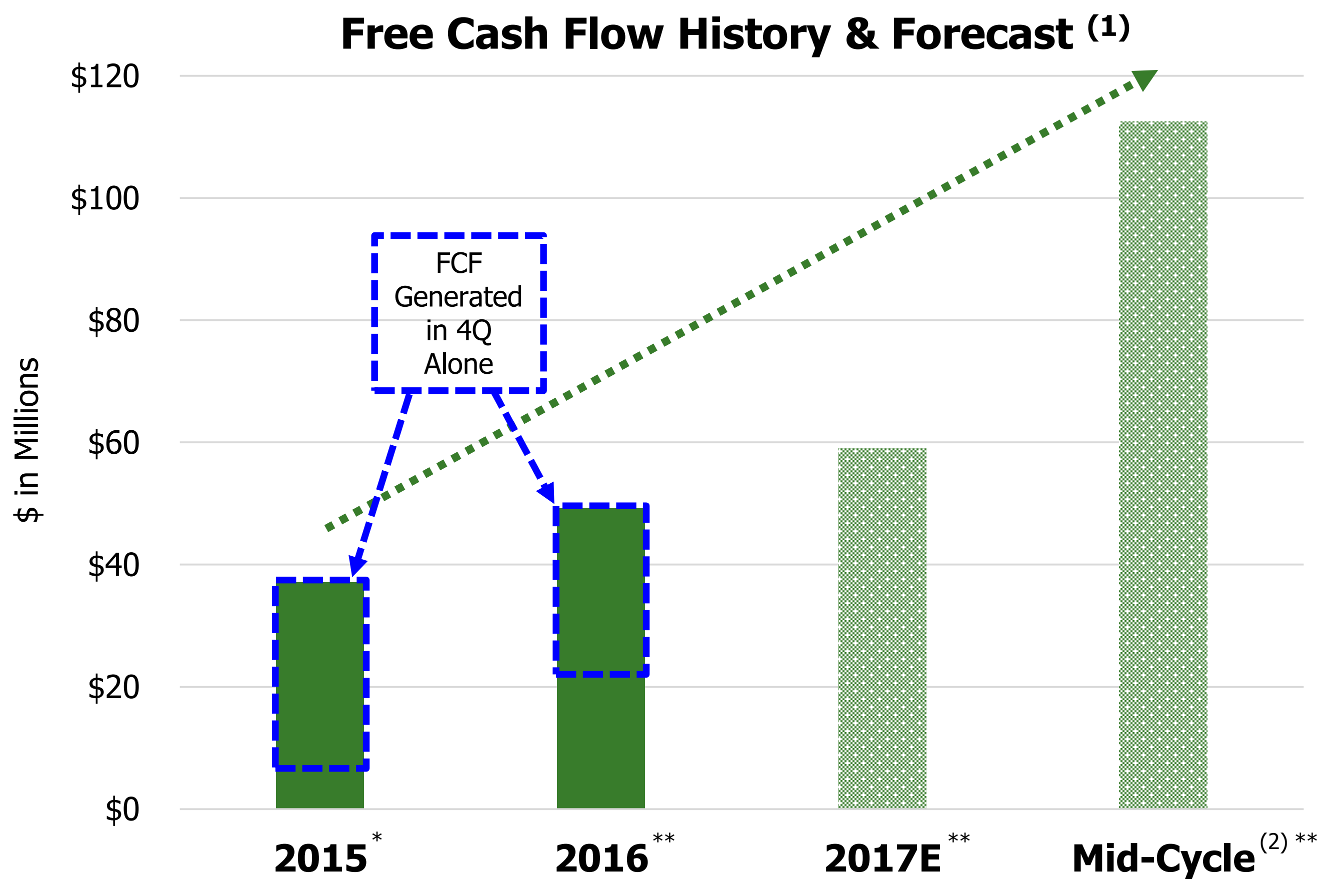


Note: Divisional EBITDA only, excludes Nichols, corporate costs and ERP-related expenses; see Appendix for a reconciliation of historical Divisional EBITDA to its most comparable GAAP measure.
*Includes the impact of HL Plastics acquisition from the date of acquisition (3Q15).
**Includes the impact of HL Plastics and Woodcraft acquisitions from the dates of acquisitions (3Q15 & 1Q16, respectively).

NX LISTED NYSE

Favorable Free Cash Flow Trend – 2H Weighted

Continuing to Improve Free Cash Flow Profile is Top Priority



(1) Free cash flow defined as cash provided by operations less capital expenditures.
(2) Mid-cycle defined as the point in time when U.S. housing starts recover to ~1.5 million per year and U.S. window shipments recover to ~65 million per year.
*Includes the impact of HL Plastics acquisition from the date of acquisition (3Q15).
**Includes the impact of HL Plastics and Woodcraft acquisitions from the dates of acquisitions (3Q15 & 1Q16, respectively).

Healthy Balance Sheet w/ Flexible Capital Structure

Refinanced Debt July 2016 - Significant Accretion & Annual Interest Expense Savings

Capitalization ($ in thousands)	NX 4.30.17
Cash & Cash Equivalents	$14,513
Senior Secured Term Loan A Facility due 2021	144,375
Senior Secured Revolving Credit Facility due 2021 (1)	125,000
Capital Leases and Other	19,669
Total Debt	**$289,044**
Net Debt	*$274,531*
Stockholders' Equity	373,431
Total Capitalization	**$662,475**
Borrowing Base	300,000
Less: Borrowings Against Revolving Credit Facility	125,000
Plus: Cash	14,513
Total Liquidity	**$189,513**
Net Debt/LTM Adj. EBITDA (2)	**2.7x**

Current Interest Rate: LIBOR +200bps

Ample Capacity on Revolver

Leverage Ratio Expected to be Closer to 2.0x by Year-end 2017

(1) Excludes $5.8 million in outstanding letters of credit.
(2) LTM Adjusted EBITDA excludes non-recurring items.

Guidance

($ in million)	Fiscal 2017
Net Sales	$880 - $900
Adjusted EBITDA	$105 - $112
Capex	~$35

Margin Expansion of ~30bps Y/Y to the Midpoint of Guidance

Underlying Growth of ~5% Y/Y to the Midpoint of Guidance

Year-Over-Year Comparables

($ in millions)	Actual 2016	Low Margin Business Adjustments (1)	FX Impact Estimate	Comparable 2016	2017E
Net Sales	$928.2	($71)	($12.5)	$844.7	$880-$900
Adjusted EBITDA	$110.3	-	-	$100.4 (2)	$105-$112
Adjusted EBITDA Margin %	11.9%	-	-	11.9%	12.2%

(1) Represents ~$65 million of low margin business the Company is walking away from in its U.S. vinyl profiles business and ~$6 million (~$10 million annualized) in its cabinet components business in 2017.
(2) Calculated using actual 2016 Adjusted EBITDA margin of 11.9%.

Strategic Priorities to Drive and Unlock Value

Strategic Themes

Continued Margin Expansion and Improved Cash Flow Generation	Organic Growth with Profitable Customers/Products

Top Priorities

~15% EBITDA Margins & ROIC >12%	Top Line Growth (1)

~15% EBITDA Margins & ROIC >12%

- Accelerate productivity improvements and automation implementation
- Maintain tight control on working capital management and capex spend
- Exit low margin business or increase prices (2)
- Reduce future cash interest expense by paying down debt further
- Continue to focus on employee safety and retention

Top Line Growth (1)

- Market growth of ~5-6% per year
- Potential for ~7-8% growth per year from:
  - Increased outsourcing
  - Continued execution on cross selling initiatives (i.e. high-speed IG lines, house systems)

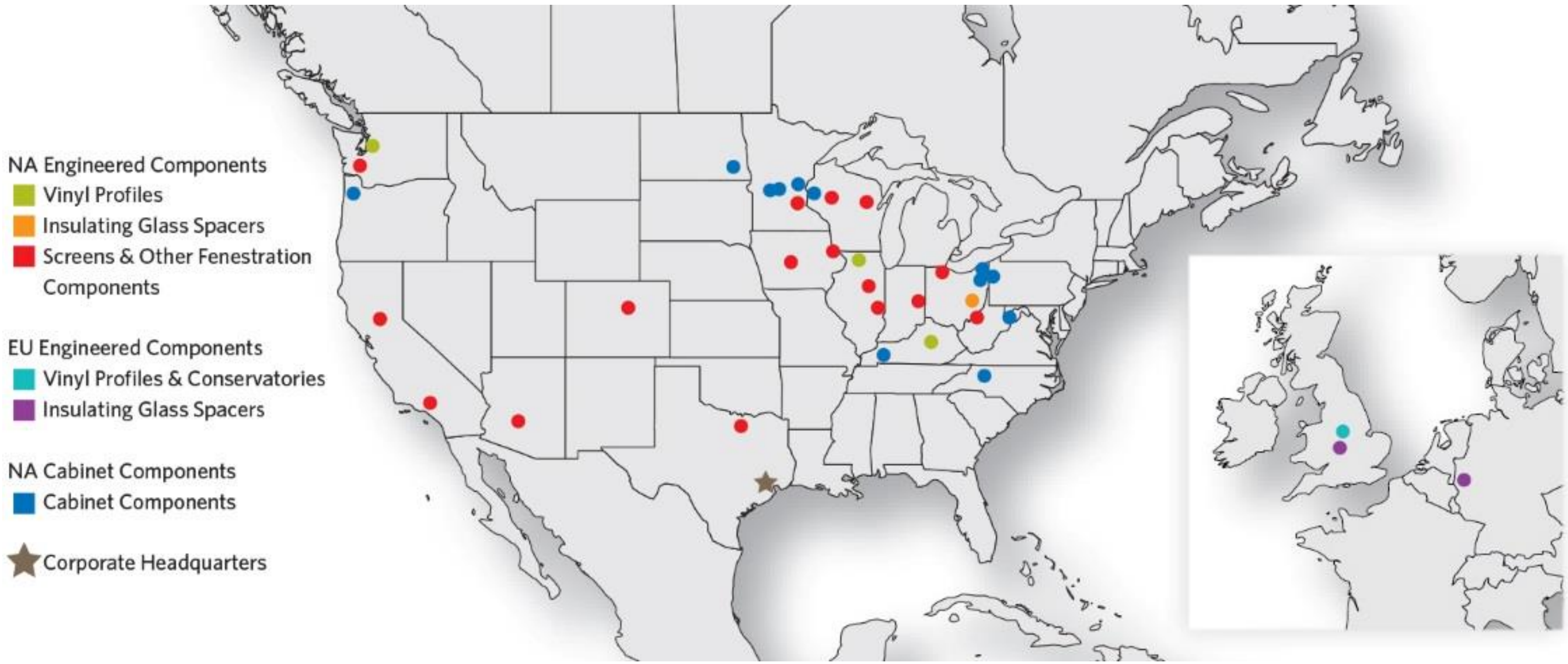
(1) Excluding foreign exchange impact and business shed in favor of protecting margins.
(2) Company expects to shed ~$71 million in revenue of low margin business in FY 2017.

Appendix

Geographic Footprint

Facilities Strategically Located to Better Serve Customers

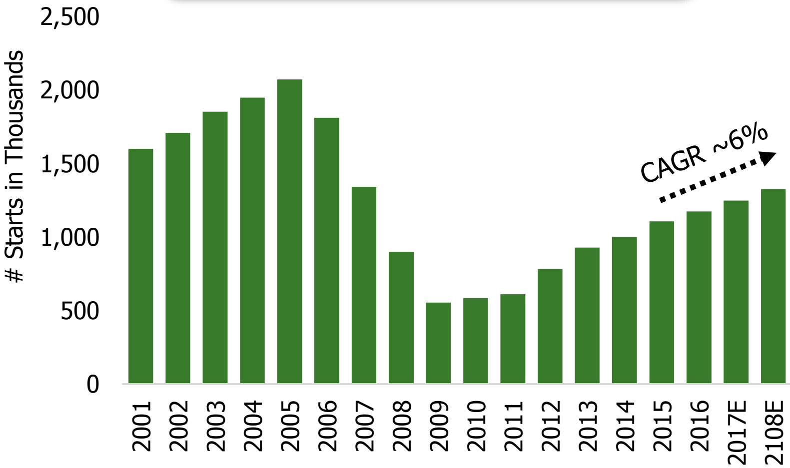
- 32 facilities located in 17 states in the US, two facilities in the UK and one facility in Germany
  - Facilities feature efficient plant design and flexible manufacturing processes, enabling Quanex to produce a wide variety of custom engineered products and components
  - Quanex maintains minimal levels of finished goods inventories at most locations as products are typically made to order for just-in-time (JIT) delivery



Compelling End Market Dynamics

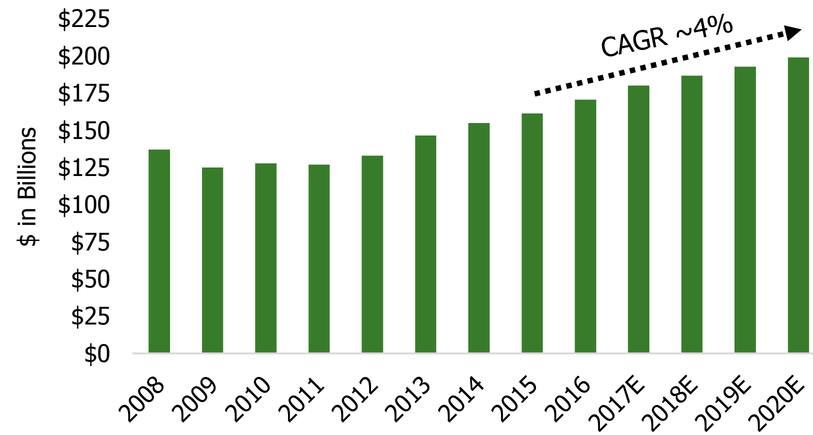
Expect Mid/High-Single Digit Market Growth For Foreseeable Future

U.S. Housing Starts



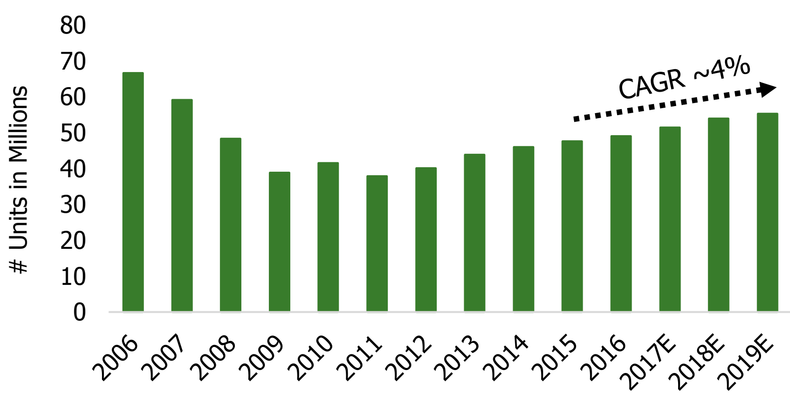
Source: NAHB - April 2017

U.S. R&R Spending



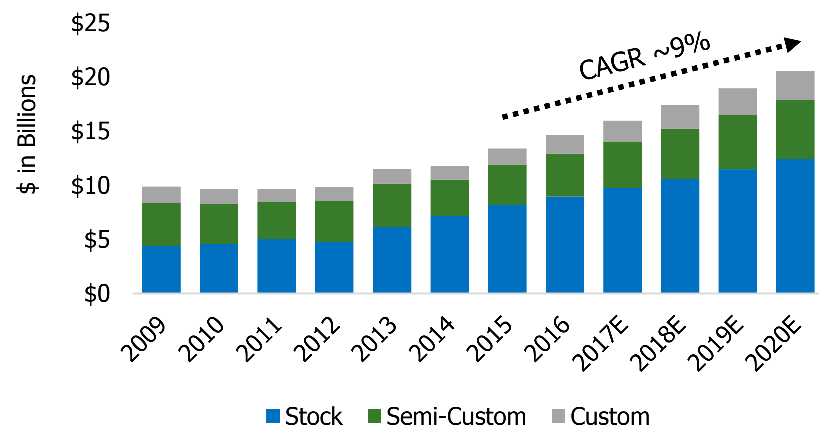
Source: Metrostudy (a Hanley-Wood company) - May 2017

U.S. Window Shipments



Source: Ducker Worldwide - May 2017

U.S. Kitchen Cabinet Market



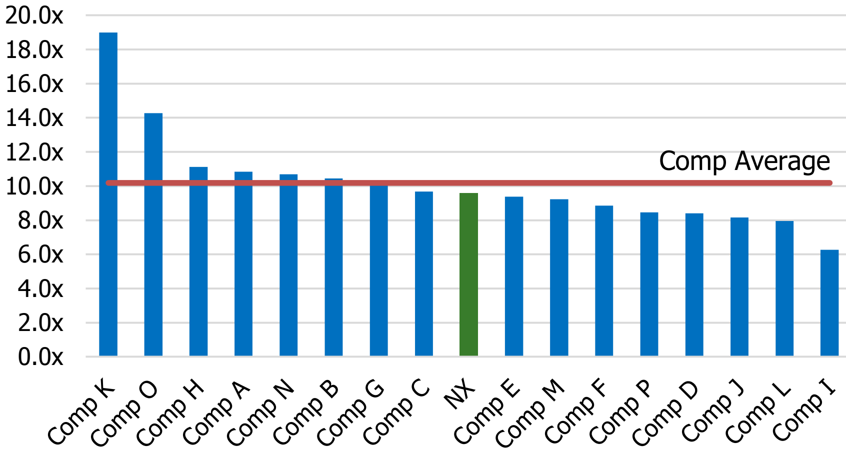
Source: Catalina– May 2017

Executive Compensation

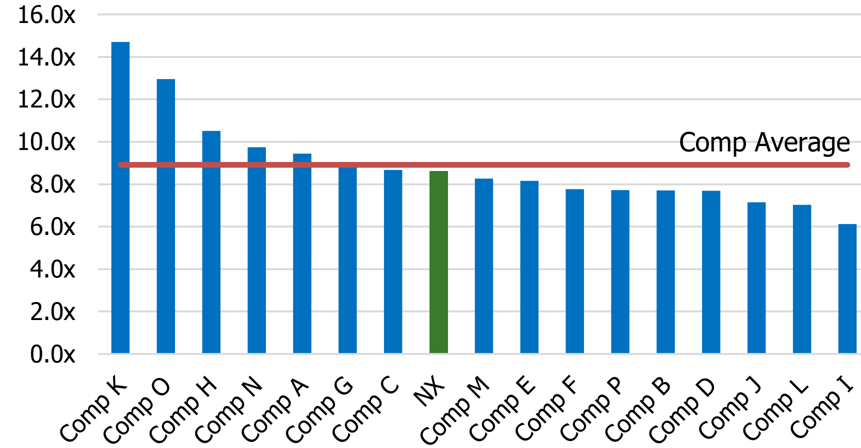
- Performance-based compensation philosophy (~70% variable)
  - Base salary targeted at market 50th percentile (~28% of Total Direct Compensation (TDC))
  - Annual incentive award based on specific metrics (~20% of TDC)
  - Long-term incentives (~52% of TDC)
- Annual Incentive Award
  - 100% weighting on EBITDA results
- Long-Term Incentive (shareholder alignment)
  - Stock options: 25% weighting
  - Restricted stock: 25% weighting
  - Performance shares: 50% weighting
    - 50% based on EPS growth
    - 50% based on Relative Total Shareholder Return (RTSR)
    - Return on Invested Capital (ROIC) improvement modifier added in 2017 to encourage good capital deployment
    - Payout 50% cash/50% common stock
- Shareholder approval of ~96%+ since implementing Say-on-Pay

Attractive Valuation

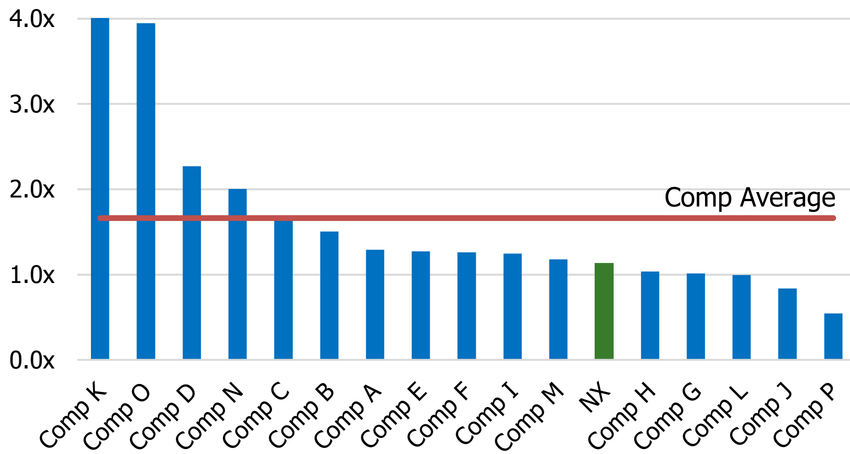
2017E EV/EBITDA



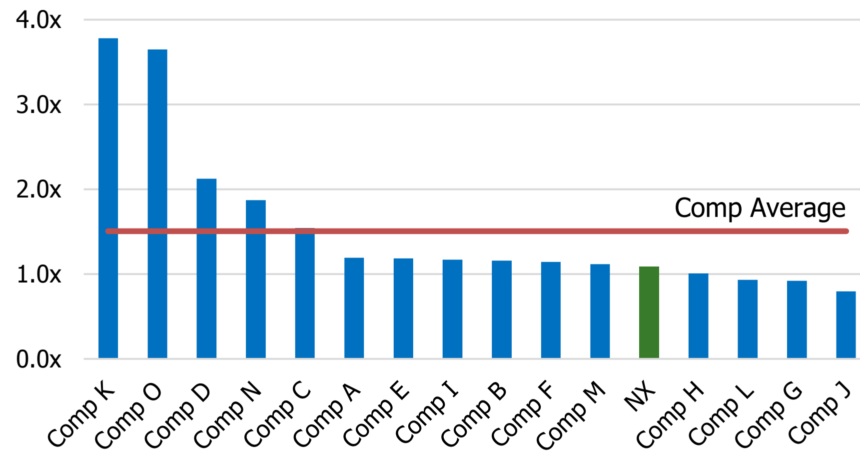
2018E EV/EBITDA



2017E EV/Sales



2018E EV/Sales



Notes:
Consensus estimates per Nasdaq IR Insight as of 6.16.17.
Comp Group – AAON, AMWD, APOG, CBPX, DOOR, LCII, GFF, LPX, NCS, PATK, PGTI, PGEM, ROCK, SSD, TREX and UFPI.

GAAP/Non-GAAP Reconciliation (Unaudited)

Net Income from Continuing Operations to Divisional EBITDA

($ in thousands)	Q1	Q2	Q3	Q4	Fiscal 2015	Q1	Q2	Q3*	Q4*	Fiscal 2016
Net income (loss) from continuing operations	$621	$6,487	$12,674	$17,663	$37,443	$4,434	$13,284	$20,046	$19,241	$57,005
Interest expense	$17	$22	$81	$15	$135	$147	$26	$65	$66	$304
Income tax expense (benefit)	($190)	$2,908	$6,716	$6,798	$16,234	$2,859	$5,245	$6,270	($5,506)	$8,868
Depreciation and amortization	$7,723	$7,638	$8,310	$10,260	$33,931	$12,811	$13,672	$12,838	$13,264	$52,585
Asset impairment charge	-	-	-	-	-	$0	$0	$0	$12,602	$12,602
Other, net	$182	$123	$51	$86	$442	$2,529	($762)	$2,553	$1,501	$5,821
Div. EBITDA	$8,353	$17,178	$27,832	$34,822	$88,185	$22,780	$31,465	$41,772	$41,168	$137,185

($ in thousands)	Q1 2017**	Q2 2017**
Net income (loss) from continuing operations	$4,859	$9,558
Interest expense	$70	$194
Income tax expense (benefit)	$1,512	$3,229
Depreciation and amortization	$15,268	$14,240
Asset impairment charge	$0	$0
Other, net	($633)	$206
Div. EBITDA	$21,076	$27,427

Note: Divisional EBITDA only; excludes Nichols, corporate costs and ERP-related expenses.
*Includes the impact of HL Plastics acquisition from the date of acquisition (3Q15).
**Includes the impact of HL Plastics and Woodcraft acquisitions from the dates of acquisitions (3Q15 & 1Q16, respectively).

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