
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 31, 2021
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission File Number 1-33913

QUANEX BUILDING PRODUCTS CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

26-1561397
(I.R.S. Employer
Identification No.)

1800 West Loop South, Suite 1500, Houston, Texas 77027

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (713) 961-4600

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.01 per share	NX	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Securities Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the registrant's Common Stock as of August 31, 2021 was 33,521,788.

QUANEX BUILDING PRODUCTS CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	July 31, 2021	October 31, 2020
	(In thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 43,663	\$ 51,621
Accounts receivable, net of allowance for credit losses of \$352 and \$161	98,286	88,287
Inventories, net	93,493	61,181
Prepaid and other current assets	9,133	6,217
Total current assets	244,575	207,306
Property, plant and equipment, net of accumulated depreciation of \$333,788 and \$340,144	176,032	184,104
Operating lease right-of-use assets	54,811	51,824
Goodwill	150,487	146,154
Intangible assets, net	86,026	93,068
Other assets	7,261	9,129
Total assets	\$ 719,192	\$ 691,585
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 79,167	\$ 77,335
Accrued liabilities	52,751	38,289
Income taxes payable	1,327	6,465
Current maturities of long-term debt	839	692
Current operating lease liabilities	8,270	7,459
Total current liabilities	142,354	130,240
Long-term debt	72,439	116,728
Noncurrent operating lease liabilities	47,371	44,873
Deferred pension and postretirement benefits	10,765	10,923
Deferred income taxes	25,252	19,116
Other liabilities	15,622	13,946
Total liabilities	313,803	335,826
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, no par value, shares authorized 1,000,000; issued and outstanding - none	—	—
Common stock, \$0.01 par value, shares authorized 125,000,000; issued 37,273,510 and 37,296,166, respectively; outstanding 33,521,788 and 32,804,737, respectively	373	373
Additional paid-in-capital	253,662	253,458
Retained earnings	241,582	213,517
Accumulated other comprehensive loss	(22,968)	(33,024)
Less: Treasury stock at cost, 3,751,722 and 4,491,429 shares, respectively	(67,260)	(78,565)
Total stockholders' equity	405,389	355,759
Total liabilities and stockholders' equity	\$ 719,192	\$ 691,585

The accompanying notes are an integral part of the financial statements.

QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2021	2020	2021	2020
	(In thousands, except per share amounts)			
Net sales	\$ 279,877	\$ 212,096	\$ 780,381	\$ 596,168
Cost and expenses:				
Cost of sales (excluding depreciation and amortization)	219,866	162,427	604,723	469,586
Selling, general and administrative	27,766	21,973	88,299	62,818
Restructuring charges	—	73	39	477
Depreciation and amortization	10,683	11,060	32,543	35,851
Operating income	21,562	16,563	54,777	27,436
Non-operating (expense) income:				
Interest expense	(597)	(1,165)	(1,988)	(4,310)
Other, net	188	(220)	645	116
Income before income taxes	21,153	15,178	53,434	23,242
Income tax expense	(7,474)	(4,345)	(17,352)	(6,898)
Net income	<u>\$ 13,679</u>	<u>\$ 10,833</u>	<u>\$ 36,082</u>	<u>\$ 16,344</u>
Basic earnings per common share	\$ 0.41	\$ 0.33	\$ 1.09	\$ 0.50
Diluted earnings per common share	\$ 0.41	\$ 0.33	\$ 1.08	\$ 0.50
Weighted-average common shares outstanding:				
Basic	33,359	32,610	33,194	32,716
Diluted	33,650	32,739	33,518	32,845
Cash dividends per share	\$ 0.08	\$ 0.08	\$ 0.24	\$ 0.24

The accompanying notes are an integral part of the financial statements.

QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	2021	2020	2021	2020
	(In thousands)			
Net income	\$ 13,679	\$ 10,833	\$ 36,082	\$ 16,344
<i>Other comprehensive income:</i>				
Foreign currency translation gain	424	7,344	10,056	3,088
Change in pension from net unamortized gain adjustment (pretax)	—	—	—	2,519
Change in pension from net unamortized gain adjustment tax expense	—	—	—	(609)
Other comprehensive income	424	7,344	10,056	4,998
Comprehensive income	<u>\$ 14,103</u>	<u>\$ 18,177</u>	<u>\$ 46,138</u>	<u>\$ 21,342</u>

The accompanying notes are an integral part of the financial statements.

QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended	
	July 31,	
	2021	2020
	(In thousands)	
Operating activities:		
Net income	\$ 36,082	\$ 16,344
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	32,543	35,851
Stock-based compensation	1,470	513
Deferred income tax	5,429	438
Other, net	5,485	762
Changes in assets and liabilities:		
Increase in accounts receivable	(8,277)	(1,852)
(Increase) decrease in inventory	(32,113)	3,553
(Increase) decrease in other current assets	(2,768)	1,218
Increase (decrease) in accounts payable	1,600	(1,878)
Increase (decrease) in accrued liabilities	12,521	(7,611)
(Decrease) increase in income taxes payable	(5,158)	107
(Decrease) increase in deferred pension and postretirement benefits	(158)	573
Increase (decrease) in other long-term liabilities	962	(181)
Other, net	(183)	(276)
Cash provided by operating activities	47,435	47,561
Investing activities:		
Capital expenditures	(16,006)	(20,673)
Proceeds from disposition of capital assets	3,138	131
Cash used for investing activities	(12,868)	(20,542)
Financing activities:		
Borrowings under credit facilities	—	114,500
Repayments of credit facility borrowings	(45,000)	(119,000)
Repayments of other long-term debt	(502)	(791)
Common stock dividends paid	(8,017)	(7,910)
Issuance of common stock	16,272	2,954
Payroll tax paid to settle shares forfeited upon vesting of stock	(492)	(454)
Purchase of treasury stock	(5,741)	(6,693)
Cash used for financing activities	(43,480)	(17,394)
Effect of exchange rate changes on cash and cash equivalents	955	580
(Decrease) increase in cash and cash equivalents	(7,958)	10,205
Cash and cash equivalents at beginning of period	51,621	30,868
Cash and cash equivalents at end of period	<u>\$ 43,663</u>	<u>\$ 41,073</u>

The accompanying notes are an integral part of the financial statements.

QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

Nine Months Ended July 31, 2021	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
(In thousands, no per share amounts shown except in verbiage)						
Balance at October 31, 2020	\$ 373	\$ 253,458	\$ 213,517	\$ (33,024)	\$ (78,565)	\$ 355,759
Net income	—	—	7,852	—	—	7,852
Foreign currency translation adjustment	—	—	—	8,600	—	8,600
Common dividends (\$0.08 per share)	—	—	(2,637)	—	—	(2,637)
Purchase of treasury stock	—	—	—	—	(1,927)	(1,927)
<i>Stock-based compensation activity:</i>						
Expense related to stock-based compensation	—	523	—	—	—	523
Stock options exercised	—	635	—	—	9,395	10,030
Restricted stock awards granted	—	(1,282)	—	—	1,282	—
Performance restricted stock units vested	—	(565)	—	—	565	—
Other	—	(492)	—	—	—	(492)
Balance at January 31, 2021	\$ 373	\$ 252,277	\$ 218,732	\$ (24,424)	\$ (69,250)	\$ 377,708
Net income	—	—	14,551	—	—	14,551
Foreign currency translation adjustment	—	—	—	1,032	—	1,032
Common dividends (\$0.08 per share)	—	—	(2,693)	—	—	(2,693)
Purchase of treasury stock	—	—	—	—	(2,041)	(2,041)
<i>Stock-based compensation activity:</i>						
Expense related to stock-based compensation	—	447	—	—	—	447
Stock options exercised	—	423	—	—	5,670	6,093
Balance at April 30, 2021	\$ 373	\$ 253,147	\$ 230,590	\$ (23,392)	\$ (65,621)	\$ 395,097
Net income	—	—	13,679	—	—	13,679
Foreign currency translation adjustment	—	—	—	424	—	424
Common dividends (\$0.08 per share)	—	—	(2,687)	—	—	(2,687)
Purchase of treasury stock	—	—	—	—	(1,773)	(1,773)
<i>Stock-based compensation activity:</i>						
Expense related to stock-based compensation	—	500	—	—	—	500
Stock options exercised	—	15	—	—	134	149
Balance at July 31, 2021	\$ 373	\$ 253,662	\$ 241,582	\$ (22,968)	\$ (67,260)	\$ 405,389

Nine Months Ended July 31, 2020	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total Stockholders' Equity
	(In thousands, no per share amounts shown except in verbiage)					
Balance at October 31, 2019	\$ 374	\$ 254,673	\$ 185,703	\$ (33,817)	\$ (76,746)	\$ 330,187
Net income	—	—	10	—	—	10
Foreign currency translation adjustment	—	—	—	2,743	—	2,743
Common dividends (\$0.08 per share)	—	—	(2,659)	—	—	(2,659)
Purchase of treasury stock	—	—	—	—	(4,639)	(4,639)
Change in pension from net unamortized loss (net of tax expense of \$609)	—	—	—	1,910	—	1,910
<i>Stock-based compensation activity:</i>						
Stock-based compensation benefit	—	(239)	—	—	—	(239)
Stock options exercised	—	92	(159)	—	3,142	3,075
Restricted stock awards granted	—	(1,082)	94	—	988	—
Performance share awards vested	—	(495)	—	—	495	—
Other	(1)	(454)	—	—	—	(455)
Balance at January 31, 2020	\$ 373	\$ 252,495	\$ 182,989	\$ (29,164)	\$ (76,760)	\$ 329,933
Net income	—	—	5,501	—	—	5,501
Foreign currency translation adjustment	—	—	—	(6,999)	—	(6,999)
Common dividends (\$0.08 per share)	—	—	(2,628)	—	—	(2,628)
Purchase of treasury stock	—	—	—	—	(2,054)	(2,054)
<i>Stock-based compensation activity:</i>						
Expense related to stock-based compensation	—	325	—	—	—	325
Stock options exercised	—	(38)	(83)	—	—	(121)
Restricted stock awards granted	—	(65)	—	—	65	—
Balance at April 30, 2020	\$ 373	\$ 252,717	\$ 185,779	\$ (36,163)	\$ (78,749)	\$ 323,957
Net income	—	—	10,833	—	—	10,833
Foreign currency translation adjustment	—	—	—	7,344	—	7,344
Common dividends (\$0.08 per share)	—	—	(2,623)	—	—	(2,623)
<i>Stock-based compensation activity:</i>						
Expense related to stock-based compensation	—	427	—	—	—	427
Balance at July 31, 2020	<u>\$ 373</u>	<u>\$ 253,144</u>	<u>\$ 193,989</u>	<u>\$ (28,819)</u>	<u>\$ (78,749)</u>	<u>\$ 339,938</u>

The accompanying notes are an integral part of the financial statements.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Basis of Presentation

Quanex Building Products Corporation is a component supplier to original equipment manufacturers (OEMs) in the building products industry. These components can be categorized as window and door (fenestration) components and kitchen and bath cabinet components. Examples of fenestration components include: (1) energy-efficient flexible insulating glass spacers, (2) extruded vinyl profiles, (3) window and door screens, and (4) precision-formed metal and wood products. We also manufacture cabinet doors and other components for OEMs in the kitchen and bathroom cabinet industry. In addition, we provide certain other non-fenestration components and products, which include solar panel sealants, trim moldings, vinyl decking, vinyl fencing, water retention barriers, and conservatory roof components. We have organized our business into three reportable business segments. For additional discussion of our reportable business segments, see Note 11, "Segment Information." We use low-cost, short lead-time production processes and engineering expertise to provide our customers with specialized products for their specific window, door, and cabinet applications. We believe these capabilities provide us with unique competitive advantages. We serve a primary customer base in North America and the United Kingdom (U.K.), and also serve customers in international markets through our operating plants in the U.K. and Germany, as well as through sales and marketing efforts in other countries.

Unless the context indicates otherwise, references to "Quanex", the "Company", "we", "us" and "our" refer to the consolidated business operations of Quanex Building Products Corporation and its subsidiaries.

The accompanying interim unaudited condensed consolidated financial statements include the accounts of Quanex Building Products Corporation. All intercompany accounts and transactions have been eliminated in consolidation. These financial statements have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet as of October 31, 2020 was derived from audited financial information but does not include all disclosures required by U.S. GAAP. The accompanying financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2020. In our opinion, the accompanying financial statements contain all adjustments (which consist of normal recurring adjustments, except as disclosed herein) necessary to fairly present our financial position, results of operations and cash flows for the interim periods. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year or for any future periods.

In preparing financial statements, we make informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. We review our estimates on an on-going basis, including those related to impairment of long-lived assets and goodwill, contingencies and income taxes. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

Revenue from Contracts with Customers

Revenue recognition

We recognize revenue that reflects the consideration we expect to receive for product sales upon transfer to customers. Revenue for product sales is recognized when control of the promised products is transferred to our customers, and we are entitled to consideration in exchange for such transfer. We account for a contract when a customer provides us with a firm purchase order that identifies the products to be provided, the payment terms for those products, and when collectability of the consideration due is probable.

Performance obligations

A performance obligation is a promise to provide the customer with a good or service. Our performance obligations include product sales, with each product included in a customer contract being recognized as a separate performance obligation. For contracts with multiple performance obligations, the standalone selling price of each product is generally readily observable.

Revenue from product sales is recognized at a point in time when the product is transferred to the customer, in accordance with the shipping terms, which is generally upon shipment. We estimate a provision for sales returns and warranty allowances to account for product returns related to general returns and product nonconformance.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

We generally expense incremental costs of obtaining a contract when incurred because the amortization period would be less than one year. Additionally, we do not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

Pricing and sales incentives

Pricing is established at or prior to the time of sale with our customers and we record sales at the agreed-upon net selling price, reflective of current and prospective discounts.

Shipping and handling costs

We account for shipping and handling services as fulfillment services; accordingly, freight revenue is combined with the product deliverable rather than being accounted for as a distinct performance obligation within the terms of the agreement. Shipping and handling costs incurred by us for the delivery of goods to customers are considered a cost to fulfill the contract and are included in cost of sales in the accompanying condensed consolidated statements of income.

Contract assets and liabilities

Deferred revenue, which is not significant, is recorded when we have remaining unsatisfied performance obligations for which we have received consideration.

Disaggregation of revenue

We produce a wide variety of products that are used in the fenestration industry, including window spacer systems; extruded vinyl products; metal fabricated products; and astragals, thresholds and screens. In addition, we produce certain non-fenestration products, including kitchen and bath cabinet doors and components, flooring and trim moldings, solar edge tape, plastic decking, fencing, water retention barriers, conservatory roof components, and other products.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarizes our product sales for the three and nine months ended July 31, 2021 and 2020 into groupings by segment which we believe depicts how the nature, amount, timing and uncertainty of our revenues and cash flows are affected by economic factors. For further details regarding our results by segment, refer to Note 11, "Segment Information".

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2021	2020	2021	2020
(In thousands)				
North American Fenestration:				
United States - fenestration	\$ 129,291	\$ 109,455	\$ 369,809	\$ 302,094
International - fenestration	9,581	6,696	25,756	19,284
United States - non-fenestration	5,853	4,845	17,543	13,779
International - non-fenestration	3,093	1,390	8,969	6,275
	<u>\$ 147,818</u>	<u>\$ 122,386</u>	<u>\$ 422,077</u>	<u>\$ 341,432</u>
European Fenestration:				
International - fenestration	\$ 54,883	\$ 31,904	\$ 147,072	87,732
International - non-fenestration	16,231	6,361	34,790	16,498
	<u>\$ 71,114</u>	<u>\$ 38,265</u>	<u>\$ 181,862</u>	<u>\$ 104,230</u>
North American Cabinet Components:				
United States - fenestration	\$ 3,240	\$ 2,666	\$ 9,711	\$ 8,461
United States - non-fenestration	57,418	48,849	168,308	142,838
International - non-fenestration	1,278	410	1,473	1,335
	<u>\$ 61,936</u>	<u>\$ 51,925</u>	<u>\$ 179,492</u>	<u>\$ 152,634</u>
Unallocated Corporate & Other				
Eliminations	\$ (991)	\$ (480)	\$ (3,050)	\$ (2,128)
	<u>\$ (991)</u>	<u>\$ (480)</u>	<u>\$ (3,050)</u>	<u>\$ (2,128)</u>
Net sales	<u>\$ 279,877</u>	<u>\$ 212,096</u>	<u>\$ 780,381</u>	<u>\$ 596,168</u>

Allowance for Credit Losses

We have established an allowance for credit losses to estimate the risk of losses, which represents an estimate of expected losses over the remaining contractual life of our receivables. The allowance is determined using two methods. The amounts calculated from each of these methods are combined to determine the total amount reserved. First, a specific reserve is established for individual accounts where information indicates the customers may have an inability to meet financial obligations. Second, a reserve is determined for all customers based on a range of percentages applied to aging categories. These percentages are based on historical collection rates, write-off experience, and forecasts of future economic conditions. Actual write-offs are charged against the allowance when collection efforts have been unsuccessful.

COVID-19 Impact

On March 11, 2020, the World Health Organization (WHO) declared the outbreak of COVID-19 as a global pandemic and advised aggressive containment action. The COVID-19 pandemic and its impacts are continuing to have an adverse effect on many sectors of the economy. Measures providing for business shutdowns generally exclude certain essential services commonly including critical infrastructure such as construction and the businesses that support that critical infrastructure. To date, we have not experienced significant challenges or expenses implementing crisis management plans intended for containment and prevention.

The health and safety of our employees are high priority. In response to the COVID-19 pandemic, we have taken additional measures to limit possible infections at the workplace by implementing social distancing, sanitizing the workspace, and requiring employees to report any COVID-19 symptoms to ensure safety as infection surges dictate. We continue to assess and refine these measures on an ongoing basis as public health guidance and applicable laws and regulations continue to evolve.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As a result of the economic and business impact of COVID-19, we may be required to revise certain accounting estimates and judgments such as, but not limited to, those related to the valuation of goodwill, intangibles, right-of-use assets, long-lived assets, accounts receivable (including allowances for credit losses), and inventory, which could have a material adverse effect on our financial position and results of operations.

2. Inventories

Inventories consisted of the following at July 31, 2021 and October 31, 2020 (in thousands):

	July 31, 2021	October 31, 2020
Raw materials	\$ 46,810	\$ 33,298
Finished goods and work in process	45,728	32,347
Supplies and other	2,459	2,020
Total	94,997	67,665
Less: Inventory reserves	1,504	6,484
Inventories, net	<u>\$ 93,493</u>	<u>\$ 61,181</u>

Fixed costs related to excess manufacturing capacity, if any, have been expensed in the period they were incurred and, therefore, are not capitalized into inventory.

3. Goodwill and Intangible Assets

Goodwill

The change in the carrying amount of goodwill for the nine months ended July 31, 2021 was as follows (in thousands):

	Nine Months Ended July 31, 2021
Beginning balance as of November 1, 2020	\$ 146,154
Foreign currency translation adjustment	4,333
Balance as of the end of the period	<u>\$ 150,487</u>

At our last annual test date, August 31, 2020, we evaluated the recoverability of goodwill at each of our five reporting units with goodwill balances and determined that our goodwill was not impaired. We evaluated for indicators of impairment during the three and nine months ended July 31, 2021 and determined that there were no triggering events. For a summary of the change in the carrying amount of goodwill by segment, see Note 11, "Segment Information."

Identifiable Intangible Assets

Amortizable intangible assets consisted of the following as of July 31, 2021 and October 31, 2020 (in thousands):

	July 31, 2021		October 31, 2020	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	\$ 146,850	\$ 78,785	\$ 154,004	\$ 80,441
Trademarks and trade names	56,635	39,164	55,745	37,314
Patents and other technology	22,546	22,056	22,386	21,312
Total	<u>\$ 226,031</u>	<u>\$ 140,005</u>	<u>\$ 232,135</u>	<u>\$ 139,067</u>

We had aggregate amortization expense related to intangible assets for the three and nine months ended July 31, 2021 of \$3.0 million and \$9.7 million, respectively, and \$3.4 million and \$10.8 million, respectively, for the comparable prior year periods. We retired fully amortized identifiable assets of \$9.9 million related to customer relationships during the nine months ended July 31, 2021.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Estimated remaining amortization expense, based on current intangible balances, for each of the fiscal years ending October 31, is as follows (in thousands):

	Estimated Amortization Expense
2021 (remaining three months)	\$ 3,057
2022	12,181
2023	11,422
2024	10,670
2025	9,444
Thereafter	39,252
Total	<u>\$ 86,026</u>

4. Debt and Finance Lease Obligations

Long-term debt consisted of the following at July 31, 2021 and October 31, 2020 (in thousands):

	July 31, 2021	October 31, 2020
Revolving Credit Facility	\$ 58,000	\$ 103,000
Finance lease obligations and other	15,951	15,321
Unamortized deferred financing fees	(673)	(901)
Total debt	\$ 73,278	\$ 117,420
Less: Current maturities of long-term debt	839	692
Long-term debt	<u>\$ 72,439</u>	<u>\$ 116,728</u>

Revolving Credit Facility

As more fully described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2020, on October 18, 2018, we amended and extended our prior credit facility by entering into a \$325.0 million revolving credit facility (the "2018 Credit Facility"), with Wells Fargo Bank, National Association, as Agent, Swingline Lender and Issuing Lender, and Bank of America, N.A. serving as Syndication Agent. The 2018 Credit Facility has a five-year term, maturing on October 18, 2023, and requires interest payments calculated, at our election and depending upon our Consolidated Leverage Ratio, at either a Base Rate plus an applicable margin or the LIBOR Rate plus an applicable margin. As of July 31, 2021, the applicable rate was LIBOR + 1.25%. In addition, we are subject to commitment fees for the unused portion of the 2018 Credit Facility.

The applicable margin and commitment fees are outlined in the following table:

Pricing Level	Consolidated Leverage Ratio	Commitment Fee	LIBOR Rate Loans	Base Rate Loans
I	Less than or equal to 1.50 to 1.00	0.200%	1.25%	0.25%
II	Greater than 1.50 to 1.00, but less than or equal to 2.25 to 1.00	0.225%	1.50%	0.50%
III	Greater than 2.25 to 1.00, but less than or equal to 3.00 to 1.00	0.250%	1.75%	0.75%
IV	Greater than 3.00 to 1.00	0.300%	2.00%	1.00%

In the event of default, outstanding borrowings would accrue interest at the Default Rate, as defined, whereby the obligations will bear interest at a per annum rate equal to 2% above the total per annum rate otherwise applicable.

The 2018 Credit Facility provides for incremental revolving credit commitments for a minimum principal amount of \$10.0 million, up to an aggregate amount of \$150.0 million, subject to the lender's discretion to elect or decline the incremental increase. We can also borrow up to the lesser of \$15.0 million or the revolving credit commitment, as defined, under a Swingline feature of the Credit Facility.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The 2018 Credit Facility contains a: (1) Consolidated Interest Coverage Ratio requirement whereby we must not permit the Consolidated Interest Coverage Ratio, as defined, to be less than 2.25 to 1.00, and (2) Consolidated Leverage Ratio requirement, whereby we must not permit the Consolidated Leverage Ratio, as defined, to be greater than 3.25 to 1.00.

In addition to maintaining these financial covenants, the 2018 Credit Facility also limits our ability to enter into certain business transactions, such as to incur indebtedness or liens, to acquire businesses or dispose of material assets, make restricted payments, pay dividends (limited to \$20.0 million per year) and other transactions as further defined in the 2018 Credit Facility. Some of these limitations, however, do not take effect so long as total leverage is less than or equal to 2.75 to 1.00 and available liquidity exceeds \$25.0 million. Substantially all of our domestic assets, with the exception of real property, are used as collateral for the Credit Agreement.

As of July 31, 2021, we had \$58.0 million of borrowings outstanding under the 2018 Credit Facility (reduced by unamortized debt issuance costs of \$0.7 million), \$4.5 million of outstanding letters of credit and \$16.0 million outstanding primarily under finance leases and other debt. We had \$262.5 million available for use under the 2018 Credit Facility at July 31, 2021. Outstanding borrowings under the 2018 Credit Facility accrue interest at 1.34% per annum. Our weighted average borrowing rate for borrowings outstanding during the nine months ended July 31, 2021 and 2020 was 1.43% and 2.62%, respectively. We were in compliance with our debt covenants as of July 31, 2021.

5. Retirement Plans

Pension Plan

Our non-contributory, single employer defined benefit pension plan covers certain of our employees in the U.S. The net periodic pension cost for this plan for the three and nine months ended July 31, 2021 and 2020 was as follows (in thousands):

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2021	2020	2021	2020
Service cost	\$ 212	\$ 242	\$ 637	\$ 1,022
Interest cost	189	280	567	853
Expected return on plan assets	(490)	(509)	(1,470)	(1,503)
Amortization of net loss	36	(4)	108	200
Net periodic pension (benefit) cost	<u>\$ (53)</u>	<u>\$ 9</u>	<u>\$ (158)</u>	<u>\$ 572</u>

On January 1, 2020, we enacted changes to our pension plan whereby the benefits for all participants were frozen and thereafter those participants will receive increased benefits in the Company sponsored defined contribution plan in lieu of participation in a defined benefit plan.

As a result of this action, we remeasured the pension assets and obligations for the pension plan, which resulted in a decrease to our projected benefit obligation and a corresponding net actuarial gain that was recorded in accumulated other comprehensive income.

During September 2020, we contributed \$3.7 million to fund our plan, and we expect to make a contribution to our plan in September 2021 of approximately \$0.5 million.

Other Plans

We also have a supplemental benefit plan covering certain executive officers and key employees and a non-qualified deferred compensation plan covering members of the Board of Directors and certain key employees. As of July 31, 2021 and October 31, 2020, our liability under the supplemental benefit plan was approximately \$2.8 million and \$2.6 million, respectively. As of July 31, 2021 and October 31, 2020, the liability associated with the deferred compensation plan was approximately \$3.6 million and \$3.3 million, respectively. We record the current portion of liabilities associated with these plans under the caption "Accrued Liabilities," and the long-term portion under the caption "Other Liabilities" in the accompanying condensed consolidated balance sheets.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Income Taxes

To determine our income tax expense or benefit for interim periods, consistent with accounting standards, we apply the estimated annual effective income tax rate to year-to-date results, adjusted for any applicable discrete items. Our estimated annual effective tax rates from continuing operations for the nine months ended July 31, 2021 and 2020 were 32.5% and 29.7%, respectively. The difference between our effective income tax rate and the U.S. federal statutory rate of 21% principally result from discrete tax items, U.S. state tax, non-U.S. tax rate differential and other permanent differences. The primary discrete items affecting the 2021 effective rate were the \$3.1 million measurement of our deferred income tax assets and liabilities related to the increase in the corporate tax rate in the U.K. from 19% to 25%, a charge of \$0.6 million related to the vesting or exercise of equity-based compensation awards and a benefit of \$0.6 million for the true-up of our accruals and related deferred taxes from prior year filings. The 2020 effective tax rate was primarily impacted by a discrete charge of \$0.5 million related to the vesting or exercise of equity-based compensation awards.

As of July 31, 2021, our liability for uncertain tax positions (UTP) of \$0.5 million relates to certain U.S. state tax items regarding the interpretation of tax laws and regulations, including \$0.2 million of interest and penalties. We include all interest and penalties related to uncertain tax benefits within our income tax provision account. Our total unrecognized tax benefits, if recognized, would not materially affect our effective tax rate. We do not believe any of the UTP at July 31, 2021 will be recognized within the next twelve months.

We evaluate the likelihood of realization of our deferred tax assets by considering both positive and negative evidence. We maintain a valuation allowance for certain state net operating losses which totaled \$1.5 million as of July 31, 2021 and October 31, 2020.

Final regulations were published by the Internal Revenue Service regarding Uniform Capitalization (UNICAP) that became effective during fiscal 2020. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. In addition, the Consolidated Appropriations Act, 2021 (CAA) was signed into law on December 27, 2020 and the American Rescue Plan Act of 2021 (American Rescue Plan) was signed into law on March 11, 2021. We evaluated the UNICAP regulations and the CARES Act and determined that there were no material impacts on our condensed consolidated financial statements. We are evaluating the CAA and the American Rescue Plan and do not believe there will be a material impact on our condensed consolidated financial statements.

7. Contingencies

Remediation and Environmental Compliance Costs

Under applicable state and federal laws, we may be responsible for, among other things, all or part of the costs required to remove or remediate wastes or hazardous substances at locations we, or our predecessors, have owned or operated. From time to time, we also have been alleged to be liable for all or part of the costs incurred to clean up third-party sites where there might have been an alleged improper disposal of hazardous substances. At present, we are not involved in any such matters.

From time to time, we incur routine expenses and capital expenditures associated with compliance with existing environmental regulations, including control of air emissions and water discharges, and plant decommissioning costs. We have not incurred any material expenses or capital expenditures related to environmental matters during the past three fiscal years, and do not expect to incur a material amount of such costs in fiscal 2021. While we will continue to have future expenditures related to environmental matters, any such amounts are impossible to reasonably estimate at this time. Based upon our experience to date, we do not believe that our compliance with environmental requirements will have a material adverse effect on our operations, financial condition or cash flows.

Litigation

From time to time, we, along with our subsidiaries, are involved in various litigation matters arising in the ordinary course of our business, including those arising from or related to contractual matters, commercial disputes, intellectual property, personal injury, environmental matters, product performance or warranties, product liability, insurance coverage and personnel and employment disputes. We regularly review with legal counsel the status of all ongoing proceedings, and we maintain insurance against these risks to the extent deemed prudent by our management and to the extent such insurance is available. However, there is no assurance that we will prevail in these matters or that our insurers will accept full coverage of these matters, and we could, in the future, incur judgments, enter into settlements of claims, or revise our expectations regarding the outcome or insurability of matters we face, which could materially impact our results of operations.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

We have been and are currently party to multiple claims, some of which are in litigation, relating to alleged defects in a commercial sealant product that was manufactured and sold during the 2000's. While we believe that our product was not defective and that we would prevail in these commercial sealant product claims if taken to trial, the timing, ultimate resolution and potential impact of these claims is not currently determinable. Nevertheless, after taking into account all currently available information, including our defenses, the advice of our counsel, and the extent and currently-expected availability of our existing insurance coverage, we believe that the eventual outcome of these commercial sealant claims will not have a material adverse effect on our overall financial condition, results of operations or cash flows, and we have not recorded any accrual with regard to these claims.

8. Fair Value Measurement of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market data developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to Level 1 and the lowest priority to Level 3. The three levels of the fair value hierarchy are described below:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates) and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs that are both significant to the fair value measurement and unobservable.

Carrying amounts reported on the balance sheet for cash, cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturity of these instruments. Our outstanding debt is variable rate debt that re-prices frequently, thereby limiting our exposure to significant change in interest rate risk. As a result, the fair value of our debt instrument approximates carrying value at July 31, 2021, and October 31, 2020 (Level 2 measurement).

Our performance share awards are marked-to-market on a quarterly basis during a three-year vesting period based on market data (Level 2 measurement). For further information, refer to Note 9, "Stock-Based Compensation - Performance Share Awards."

9. Stock-Based Compensation

We have established and maintain an Omnibus Incentive Plan (2020 Plan) that provides for the granting of restricted stock awards, stock options, restricted stock units, performance share awards, performance restricted stock units, and other stock-based and cash-based awards. The 2020 Plan is administered by the Compensation and Management Development Committee of the Board of Directors.

The aggregate number of shares of common stock authorized for grant under the 2020 Plan is 3,139,895 as approved by shareholders. Any officer, key employee and/or non-employee director is eligible for awards under the 2020 Plan. We grant restricted stock units to non-employee directors on the first business day of each fiscal year. As approved by the Compensation & Management Development Committee of our Board of Directors annually, we grant a mix of restricted stock awards, restricted stock units, performance shares and/or performance restricted stock units to officers, management and key employees. We also historically granted stock options to certain officers, directors and key employees. Occasionally, we may make additional grants to key employees at other times during the year.

Restricted Stock Awards

Restricted stock awards are granted to key employees and officers annually, and typically cliff vest over a three-year period with service and continued employment as the only vesting criteria. The recipient of the restricted stock award is entitled to all of the rights of a shareholder, except that the award is nontransferable during the vesting period. The fair value of the restricted stock award is established on the grant date and then expensed over the vesting period resulting in an increase in additional paid-in-capital. Shares are generally issued from treasury stock at the time of grant.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

A summary of non-vested restricted stock awards activity during the nine months ended July 31, 2021 is presented below:

	Restricted Stock Awards	Weighted Average Grant Date Fair Value per Share
Non-vested at October 31, 2020	187,500	\$ 16.82
Granted	73,300	20.68
Forfeited	—	—
Vested	(44,400)	20.70
Non-vested at July 31, 2021	<u>216,400</u>	<u>\$ 17.28</u>

The total weighted average grant-date fair value of restricted stock awards that vested during each of the nine months ended July 31, 2021 and 2020 was \$0.9 million and \$1.1 million, respectively. As of July 31, 2021, total unrecognized compensation cost related to unamortized restricted stock awards was \$1.8 million. We expect to recognize this expense over the remaining weighted average vesting period of 1.9 years.

Stock Options

Historically, stock options have been awarded to key employees, officers and non-employee directors. In December 2017, the Compensation & Management Development Committee of the Board of Directors approved a change to the long-term incentive award program eliminating the grant of stock options and replacing this award with a grant of performance restricted stock units as further described below. As a result, the final stock options were granted during the fiscal year ended October 31, 2017. Stock options typically vested ratably over a three-year period with service and continued employment as the vesting conditions. Our stock options may be exercised up to a maximum of ten years from the date of grant. The fair value of the stock options was determined on the grant date and expensed over the vesting period resulting in an increase in additional paid-in-capital. For employees who were nearing retirement-eligibility, we recognized stock option expense ratably over the shorter of the vesting period or the period from the grant-date to the retirement-eligibility date.

We use a Black-Scholes pricing model to estimate the fair value of stock options. A description of the methodology for the valuation assumptions was disclosed in our Annual Report on Form 10-K for the fiscal year ended October 31, 2020.

The following table summarizes our stock option activity for the nine months ended July 31, 2021:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (000s)
Outstanding at October 31, 2020	1,095,329	\$ 18.88		
Granted	—	\$ —		
Exercised	(865,393)	18.80		
Forfeited/Expired	(2,500)	18.22		
Outstanding at July 31, 2021	<u>227,436</u>	\$ 19.20	3.5	\$ 1,283
Vested at July 31, 2021	<u>227,436</u>	\$ 19.20	3.5	\$ 1,283
Exercisable at July 31, 2021	<u>227,436</u>	\$ 19.20	3.5	\$ 1,283

Intrinsic value is the amount by which the market price of the common stock on the date of exercise exceeds the exercise price of the stock option. The total intrinsic value of stock options exercised during the nine months ended July 31, 2021 and 2020 was \$4.2 million and \$0.5 million, respectively. The weighted-average grant date fair value of stock options that vested during the nine months ended July 31, 2020 was \$0.4 million.

Restricted Stock Units

Restricted stock units may be awarded to key employees and officers from time to time, and annually to non-employee directors. The non-employee director restricted stock units vest immediately but are payable only upon the director's cessation of service unless an election is made by the non-employee director to settle and pay the award on an earlier specified date. Restricted stock units awarded to employees and officers typically cliff vest after a three-year period with service and continued employment as the vesting conditions. Restricted stock units are not considered outstanding shares and do not have voting rights, although the holder does receive a cash payment equivalent to the dividend paid, on a one-for-one basis, on our

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

outstanding common shares. Once the criteria is met, each restricted stock unit is payable to the holder in cash based on the market value of one share of our common stock. Accordingly, we record a liability for the restricted stock units on our balance sheet and recognize any changes in the market value during each reporting period as compensation expense.

During the nine months ended July 31, 2021 and 2020, non-employee directors received 28,826 and 25,326 restricted stock units, respectively, at a grant date fair value of \$18.79 per share and \$19.02 per share, respectively, which vested immediately. As of July 31, 2021, there were 21,774 non-vested restricted stock units, which were awarded in January 2020 to key employees at a weighted average grant date fair value of \$17.08. During the nine months ended July 31, 2021 we paid \$0.8 million to settle vested restricted stock units. There were no corresponding payments to settle vested restricted stock during the nine months ended July 31, 2020.

Performance Share Awards

We have awarded annual grants of performance shares to key employees and officers. Beginning with the fiscal year ended October 31, 2019, performance share awards vest with return on net assets (RONA) as the vesting condition and pay out 100% in cash, and are accounted for as liability.

The expected cash settlement of the performance share award is recorded as a liability and is being marked to market over the three-year term of the award and can fluctuate depending on the number of shares ultimately expected to vest. Depending on the achievement of the performance conditions, 0% to 200% of the awarded performance shares may ultimately vest.

The following table summarizes our performance share grants and the grant date fair value for the RONA performance metrics:

Grant Date	Shares Awarded	Grant Date Fair Value	Shares Forfeited
December 5, 2018	132,400	\$ 13.63	40,900
December 5, 2019	55,900	\$ 19.40	5,300
December 2, 2020	65,300	\$ 20.68	—

In December 2020, the December 2017 grant vested, however, no shares were awarded as performance criteria were not met. We recorded compensation expense of \$0.7 million and \$4.0 million, respectively, for the three and nine months ended July 31, 2021 related to the expected payout of our performance share awards that were outstanding as of July 31, 2021. We recorded compensation expense of \$0.1 million for the three months ended July 31, 2020 and a decrease in compensation expense of \$0.3 million for the nine months ended July 31, 2020 related to the expected payout of our performance share awards that were outstanding as of July 31, 2020.

Performance share awards are payable in cash based upon the number of performance shares ultimately earned, and are therefore not considered outstanding shares.

Performance Restricted Stock Units

We award performance restricted stock units to key employees and officers. These awards cliff vest upon a three-year service period with the absolute total shareholder return of our common stock over this three-year term as the vesting criteria. The number of shares earned is variable depending on the metric achieved, and the settlement method is 100% in our common stock, with accrued dividends paid in cash at the time of vesting, assuming the shares had been outstanding throughout the performance period.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

To value the performance restricted stock units, we used a Monte Carlo simulation model to arrive at a grant-date fair value. This amount will be adjusted for forfeitures and expensed over the three-year term of the award with a credit to additional paid-in-capital. Depending on the achievement of the performance conditions, a minimum of 0% and a maximum of 150% of the awarded performance restricted stock units may vest. Specifically, the awards vest on a continuum with the following Absolute Total Shareholder Return (A-TSR) milestones:

Vesting Level	Vesting Criteria	Percentage of Award Vested
Level 1	A-TSR greater than or equal to 50%	150%
Level 2	A-TSR less than 50% and greater than or equal to 20%	100%
Level 3	A-TSR less than 20% and greater than or equal to -20%	50%
Level 4	A-TSR less than -20%	—%

The following table summarizes our performance restricted stock unit grants and the grant date fair value for the A-TSR performance metric:

Grant Date	Shares Awarded	Grant Date Fair Value	Shares Forfeited
December 5, 2018	89,200	\$ 13.63	25,500
December 5, 2019	35,000	\$ 19.40	—
December 2, 2020	38,400	\$ 20.68	—

During the nine months ended July 31, 2021, 32,322 performance restricted stock units vested. We recorded compensation expense related to our performance restricted stock units of approximately \$0.1 million and \$0.5 million, respectively, for the three and nine months ending July 31, 2021 and \$0.1 million and \$0.4 million, respectively, for the comparable prior year periods.

The performance restricted stock units are not considered outstanding shares, do not have voting rights, and are excluded from diluted weighted-average shares used to calculate earnings per share until the performance criteria is probable to result in the issuance of contingent shares. As of July 31, 2021, we have deemed 92,104 shares related to the December 2018 grant of performance restricted stock units as probable to vest.

Treasury Shares

We record treasury stock purchases under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. Shares are generally issued from treasury stock at the time of grant of restricted stock awards, upon the exercise of stock options, and upon the vesting of performance shares and performance restricted stock units. On the subsequent issuance of treasury shares, we record proceeds in excess of cost as an increase in additional paid in capital. A deficiency of such proceeds relative to costs would be applied to reduce paid-in-capital associated with prior issuances to the extent available, with the remainder recorded as a charge to retained earnings. There were no charges to retained earnings during the nine months ended July 31, 2021.

The following table summarizes the treasury stock activity during the nine months ended July 31, 2021:

	Nine Months Ended July 31, 2021
Beginning Balance as of November 1, 2020	4,491,429
Restricted stock awards granted	(73,300)
Performance restricted stock units vested	(32,322)
Stock options exercised	(865,393)
Treasury stock repurchases	231,308
Balance at July 31, 2021	<u>3,751,722</u>

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Other, net

Other, net on the condensed consolidated statements of income consisted of the following for the three and nine months ended July 31, 2021 and 2020 (in thousands):

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	2021	2020	2021	2020
Foreign currency transaction losses	\$ (79)	\$ (458)	\$ (161)	\$ (375)
Foreign currency derivative losses	—	—	—	(15)
Pension service benefit	265	232	795	449
Interest income	—	5	4	24
Other	2	1	7	33
Other, net	<u>\$ 188</u>	<u>\$ (220)</u>	<u>\$ 645</u>	<u>\$ 116</u>

11. Segment Information

We present three reportable business segments (1) NA Fenestration, comprising three operating segments primarily focused on the fenestration market in North America including vinyl profiles, insulating glass spacers, screens & other fenestration components; (2) EU Fenestration, comprising our U.K.-based vinyl extrusion business, manufacturing vinyl profiles & conservatories, and the European insulating glass business manufacturing insulating glass spacers; and (3) NA Cabinet Components, comprising our cabinet door and components operations. We maintain an Unallocated Corporate & Other which includes transaction expenses, stock-based compensation, long-term incentive awards based on the performance of our common stock and other factors, certain severance, legal, and other costs not deemed to be allocable to all segments, depreciation of corporate assets, interest expense, other, net, income taxes and inter-segment eliminations, and executive incentive compensation and medical expense fluctuations relative to planned costs as determined during the annual planning process. Other general and administrative costs associated with the corporate office are allocated to the reportable segments, based upon a relative measure of profitability in order to more accurately reflect each reportable business segment's administrative costs. We allocate corporate expenses to businesses acquired mid-year from the date of acquisition. The accounting policies of our operating segments are the same as those used to prepare the accompanying condensed consolidated financial statements. Corporate general and administrative expense allocated during the three and nine month period ended July 31, 2021 was \$4.9 million and \$15.6 million, respectively, and \$5.2 million and \$15.4 million for the comparable prior year periods.

ASC Topic 280-10-50, "Segment Reporting" (ASC 280) permits aggregation of operating segments based on factors including, but not limited to: (1) similar nature of products serving the building products industry, primarily the fenestration business; (2) similar production processes, although there are some differences in the amount of automation amongst operating plants; (3) similar types or classes of customers, namely the primary OEMs; (4) similar distribution methods for product delivery, although the extent of the use of third-party distributors will vary amongst the businesses; (5) similar regulatory environment; and (6) converging long-term economic similarities.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Segment information for the three and nine months ended July 31, 2021 and 2020, and total assets as of July 31, 2021 and October 31, 2020 are summarized in the following table (in thousands):

	NA Fenestration	EU Fenestration	NA Cabinet Comp.	Unallocated Corp. & Other	Total
Three Months Ended July 31, 2021					
Net sales	\$ 147,818	\$ 71,114	\$ 61,936	\$ (991)	\$ 279,877
Depreciation and amortization	4,571	2,646	3,390	76	10,683
Operating income (loss)	13,302	11,464	(918)	(2,286)	21,562
Capital expenditures	2,651	2,285	1,115	156	6,207
Three Months Ended July 31, 2020					
Net sales	\$ 122,386	\$ 38,265	\$ 51,925	\$ (480)	\$ 212,096
Depreciation and amortization	5,371	2,307	3,264	118	11,060
Operating income (loss)	12,383	5,365	(193)	(992)	16,563
Capital expenditures	1,963	1,787	602	8	4,360
Nine Months Ended July 31, 2021					
Net sales	\$ 422,077	\$ 181,862	\$ 179,492	\$ (3,050)	\$ 780,381
Depreciation and amortization	14,528	7,771	9,965	279	32,543
Operating income (loss)	40,288	29,901	(1,215)	(14,197)	54,777
Capital expenditures	7,472	4,025	4,228	281	16,006
Nine Months Ended July 31, 2020					
Net sales	\$ 341,432	\$ 104,230	\$ 152,634	\$ (2,128)	\$ 596,168
Depreciation and amortization	18,311	7,045	10,139	356	35,851
Operating income (loss)	21,442	9,140	(3,481)	335	27,436
Capital expenditures	13,199	3,413	3,946	115	20,673
As of July 31, 2021					
Total assets	\$ 264,286	\$ 244,381	\$ 176,625	\$ 33,900	\$ 719,192
As of October 31, 2020					
Total assets	\$ 252,703	\$ 223,248	\$ 174,713	\$ 40,921	\$ 691,585

The following table summarizes the change in the carrying amount of goodwill by reportable business segment for the nine months ended July 31, 2021 (in thousands):

	NA Fenestration	EU Fenestration	NA Cabinet Comp.	Unallocated Corp. & Other	Total
Balance as of October 31, 2020	\$ 38,712	\$ 68,295	\$ 39,147	\$ —	\$ 146,154
Foreign currency translation adjustment	—	4,333	—	—	4,333
Balance as of July 31, 2021	\$ 38,712	\$ 72,628	\$ 39,147	\$ —	\$ 150,487

For further details of Goodwill, see Note 3, "Goodwill & Intangible Assets", located herewith.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

We did not allocate non-operating loss or income tax benefit to the reportable segments. The following table reconciles operating income as reported above to net income for the three and nine months ended July 31, 2021 and 2020 (in thousands):

	Three Months Ended		Nine Months Ended	
	July 31,		July 31,	
	2021	2020	2021	2020
Operating income	\$ 21,562	\$ 16,563	\$ 54,777	\$ 27,436
Interest expense	(597)	(1,165)	(1,988)	(4,310)
Other, net	188	(220)	645	116
Income tax expense	(7,474)	(4,345)	(17,352)	(6,898)
Net income	<u>\$ 13,679</u>	<u>\$ 10,833</u>	<u>\$ 36,082</u>	<u>\$ 16,344</u>

12. Earnings Per Share

We compute basic earnings per share by dividing net income by the weighted average number of common shares outstanding during the period. Diluted earnings per common and potential common shares include the weighted average of additional shares associated with the incremental effect of dilutive employee stock options, non-vested restricted stock as determined using the treasury stock method prescribed by U.S. GAAP and contingent shares associated with performance share awards, if dilutive.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Basic and diluted earnings per share for the three and nine months ended July 31, 2021 and 2020 were calculated as follows (in thousands, except per share data):

	Net Income	Weighted Average Shares	Per Share
Three Months Ended July 31, 2021			
Basic earnings per common share	\$ 13,679	33,359	\$ 0.41
<i>Effect of dilutive securities:</i>			
Stock options	—	59	—
Restricted stock awards	—	140	—
Performance restricted stock units	—	92	—
Diluted earnings per common share	<u>\$ 13,679</u>	<u>33,650</u>	\$ 0.41
Three Months Ended July 31, 2020			
Basic earnings per common share	\$ 10,833	32,610	\$ 0.33
<i>Effect of dilutive securities:</i>			
Stock options	—	1	—
Restricted stock awards	—	86	—
Performance shares	—	17	—
Performance restricted stock units	—	25	—
Diluted earnings per common share	<u>\$ 10,833</u>	<u>32,739</u>	\$ 0.33
Nine Months Ended July 31, 2021			
Basic earnings per common share	\$ 36,082	33,194	\$ 1.09
<i>Effect of dilutive securities:</i>			
Stock options	—	103	—
Restricted stock awards	—	129	—
Performance restricted stock units	—	92	—
Diluted earnings per common share	<u>\$ 36,082</u>	<u>33,518</u>	\$ 1.08
Nine Months Ended July 31, 2020			
Basic earnings per common share	\$ 16,344	32,716	\$ 0.50
<i>Effect of dilutive securities:</i>			
Stock options	—	5	—
Restricted stock awards	—	82	—
Performance shares	—	17	—
Performance restricted stock units	—	25	—
Diluted earnings per common share	<u>\$ 16,344</u>	<u>32,845</u>	\$ 0.50

We do not include equity instruments in our calculation of diluted earnings per share if those instruments would be anti-dilutive. Such dilution is dependent on the excess of the market price of our stock over the exercise price and other components of the treasury stock method. The following table shows anti-dilutive instruments for the three and nine months ended July 31, 2021 and 2020 (shares in thousands):

	Three Months Ended July 31,		Nine Months Ended July 31,	
	2021	2020	2021	2020
Stock options	—	1,139	—	1,107
Restricted stock awards	—	51	—	51
Total	<u>—</u>	<u>1,190</u>	<u>—</u>	<u>1,158</u>

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. New Accounting Guidance

Accounting Standards Recently Adopted

In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. This ASU sets forth a “current expected credit loss” model, which requires the measurement of all expected credit losses for financial instruments or other assets (e.g., trade receivables), held at the reporting date based on historical experience, current conditions, and reasonable supportable forecasts. We adopted this amendment on November 1, 2020, with no material impact on our condensed consolidated financial statements.

Unless the context indicates otherwise, references to “Quanex”, the “Company”, “we”, “us” and “our” refer to the consolidated business operations of Quanex Building Products Corporation and its subsidiaries.

Cautionary Note Regarding Forward-Looking Statements

Certain of the statements contained in this document and in documents incorporated by reference herein, including those made under the caption “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” are “forward-looking” statements as defined under the Private Securities Litigation Reform Act of 1995. Generally, the words “expect,” “believe,” “intend,” “estimate,” “anticipate,” “project,” “will” and similar expressions identify forward-looking statements, which generally are not historical in nature. Forward looking statements are (1) all statements which address future operating performance, (2) events or developments that we expect or anticipate will occur in the future, including statements relating to volume, sales, operating income and earnings per share, and (3) statements expressing general outlook about future operating results. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our current projections or expectations. As and when made, we believe that these forward-looking statements are reasonable. However, caution should be taken not to place undue reliance on any such forward-looking statements since such statements speak only as of the date when made and there can be no assurance that such forward-looking statements will occur. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include, but are not limited to the following:

- impacts from public health issues (including pandemics, such as the current COVID-19 pandemic and quarantines) on the economy, demand for our products or our operations, including the responses of governmental authorities to contain such public health issues;
- changes in market conditions, particularly in the new home construction, and residential remodeling and replacement (R&R) activity markets in the United States, United Kingdom, Germany and elsewhere;
- changes in non-pass-through raw material costs;
- changes in domestic and international economic conditions;
- changes in availability and prices of raw materials;
- our ability to attract and retain skilled labor;
- changes in purchases by our principal customers;
- fluctuations in foreign currency exchange rates;
- our ability to maintain an effective system of internal controls;
- our ability to successfully implement our internal operating plans and acquisition strategies;
- our ability to successfully implement our plans with respect to information technology (IT) systems and processes;
- our ability to control costs and increase profitability;
- changes in environmental laws and regulations;
- changes in warranty obligations;
- changes in energy costs;
- changes in tax laws, and interpretations thereof;
- changes in interest rates;
- our ability to service our debt facilities and remain in good standing with our lenders;
- changes in the availability or applicability of our insurance coverage;
- our ability to maintain a good relationship with our suppliers, subcontractors, and key customers; and
- the resolution of litigation and other legal proceedings.

For information on additional factors that could cause actual results to differ materially, please refer to the section entitled “*Item 1A. Risk Factors*” in our Annual Report on Form 10-K for the fiscal year ended October 31, 2020.

About Third-Party Information

In this report, we rely on and refer to information regarding industry data obtained from market research, publicly available information, industry publications, U.S. government sources and other third parties. Although we believe this

information is reliable, we cannot guarantee the accuracy or completeness of the information and have not independently verified it.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes as of July 31, 2021, and for the three and nine months ended July 31, 2021 and 2020, included elsewhere herein. For additional information pertaining to our business, including risk factors which should be considered before investing in our common stock, refer to our Annual Report on Form 10-K for the fiscal year ended October 31, 2020.

Our Business

We manufacture components for original equipment manufacturers (OEMs) in the building products industry. These components can be categorized as window and door (fenestration) components and kitchen and bath cabinet components. Examples of fenestration components include (1) energy-efficient flexible insulating glass spacers, (2) extruded vinyl profiles, (3) window and door screens, and (4) precision-formed metal and wood products. We also manufacture cabinet doors and other components for OEMs in the kitchen and bathroom cabinet industry. In addition, we provide certain other non-fenestration components and products, which include solar panel sealants, trim moldings, vinyl decking, vinyl fencing, water retention barriers, and conservatory roof components. We use low-cost, short lead-time production processes and engineering expertise to provide our customers with specialized products for their specific window, door, and cabinet applications. We believe these capabilities provide us with unique competitive advantages. We serve a primary customer base in North America and the U.K., and also serve customers in international markets through our operating plants in the U.K. and Germany, as well as through sales and marketing efforts in other countries.

We continue to invest in organic growth initiatives and we intend to continue evaluating business acquisitions that allow us to expand our existing fenestration and cabinet component footprint, enhance our product offerings, provide new complementary technology, enhance our leadership position within the markets we serve and expand into new markets or service lines. We have disposed of non-core businesses in the past, and continue to evaluate our business portfolio to ensure that we are investing in markets where we believe there is potential future growth.

We currently have three reportable business segments: (1) North American Fenestration segment ("NA Fenestration"), comprising three operating segments, manufacturing vinyl profiles, IG spacers, screens and other fenestration components; (2) European Fenestration segment ("EU Fenestration"), comprising our U.K.-based vinyl extrusion business, manufacturing vinyl profiles and conservatories, and the European insulating glass business manufacturing IG spacers; and (3) North American Cabinet Components segment ("NA Cabinet Components"), comprising our North American cabinet door and components business and two wood-manufacturing plants. We maintain a grouping called Unallocated Corporate & Other, which includes transaction expenses, stock-based compensation, long-term incentive awards based on the performance of our common stock and other factors, certain severance, legal, and other costs not deemed to be allocable to all segments, depreciation of corporate assets, interest expense, other, net, income taxes and inter-segment eliminations, and executive incentive compensation and medical expense fluctuations relative to planned costs as determined during the annual planning process. Other corporate general and administrative costs have been allocated to the reportable business segments, based upon a relative measure of profitability in order to more accurately reflect each reportable business segment's administrative costs. We allocate corporate expenses to businesses acquired mid-year from the date of acquisition. The accounting policies of our operating segments are the same as those used to prepare our accompanying condensed consolidated financial statements.

Recent Transactions and Events

On March 11, 2020, the WHO declared the outbreak of COVID-19 to be a global pandemic and recommended containment and mitigation measures. Our first priority with regard to the COVID-19 pandemic is to do everything we can to ensure the safety, health and welfare of our employees, customers, suppliers and other partners. With the implementation of health and safety practices at our facilities, we are continuing to supply the industry during this uncertain time, recognizing the essential role the construction industry plays in providing housing and necessary infrastructure.

As federal, state and local governments react to the public health crisis, significant uncertainties have been created in the economy. The COVID-19 pandemic and its related effects continue to have a significant adverse effect on many sectors of the economy and we may be further impacted.

As part of our response to the COVID-19 pandemic, we have taken the following measures:

- We are continuing to provide our products to support critical infrastructure needs while following national, state, and local guidelines required to continue operations during the existence of the pandemic and related local declarations of emergency. However, local or regional hotspots of the pandemic could result in other locations being temporarily idled

due to the need to deep clean areas where an employee who has tested positive for COVID-19 worked or any similar impacts in our supply chain. We work with our customers to the extent idling affects fulfillment timing.

- We have taken precautionary measures intended to help minimize the risk of the virus to our employees by implementing social distancing, sanitizing the workspace, and requiring employees to report any COVID-19 symptoms to ensure safety as infection surges dictate.
- We continue to monitor the rapidly evolving situation and guidance from international and domestic authorities, including federal, state and local public health authorities and may take additional actions based on their recommendations. In these circumstances, there may be developments outside our control requiring us to adjust our operating plan.

Market Overview and Outlook

We believe the primary drivers of our operating results continue to be North American new home construction and residential remodeling and replacement (R&R) activity. We believe that housing starts and window shipments are indicators of activity levels in the homebuilding and window industries, and we use this data, as published by or derived from third-party sources, to evaluate the market. We have evaluated the market using data from the National Association of Homebuilders (NAHB) with regard to housing starts, and published reports by Ducker Worldwide, LLC (Ducker), a consulting and research firm, with regard to window shipments in the U.S. We obtain market data from Catalina Research, a consulting and research firm, for insight into the U.S. residential wood cabinet demand.

In August 2021, the NAHB forecasted calendar-year housing starts to be 1.6 million for the 2021, 2022 and 2023 calendar-years. In August 2021, the Ducker forecast indicated that total window shipments are expected to increase approximately 10.2% for calendar-year 2021 and approximately 3% in 2022 and 2% in 2023. The estimated increase in window shipments for the year ended December 31, 2021 includes an increase in new construction shipments of approximately 16% and an increase in R&R shipments of approximately 6%. In August 2021, Catalina Research estimated that residential semi-custom cabinet demand in the U.S. is estimated to increase 18.9% in 2021 and 6.4% in 2022.

Several commodities in our business are subject to pricing fluctuations, including polyvinyl resin (PVC), titanium dioxide (TiO₂), petroleum products, aluminum and wood. For the majority of our customers and critical suppliers, we have price adjusters in place which effectively share the base pass-through price changes for our primary commodities with our customers commensurate with the market at large. Our long-term exposure to these price fluctuations is somewhat mitigated due to the contractual component of the adjuster programs. However, these adjusters are not in place with all customers and for all commodities, and there is a level of exposure to such volatility due to the lag associated with the timing of price updates in accordance with our customer agreements, particularly with regard to hardwoods. In addition, some of these commodities, such as silicone, are in high demand, particularly in Europe, which can affect the cost of the raw materials, a portion of which we may not be able to fully recover.

On June 23, 2016, citizens of the U.K. voted to exit the European Union (E.U.) (referred to as Brexit). In October 2019, the U.K. and E.U. ratified a withdrawal agreement, and subsequently the U.K. left the E.U. on January 31, 2020. The E.U. rules for trade, travel, and business for the U.K. lapsed on December 31, 2020. In early 2021, the U.K. and the E.U. agreed on a 100% tariff liberalization trade agreement. There will be no tariffs or quotas on the movement of goods produced between the U.K. and the E.U. During this settling in period we could experience extended lead times for raw material imports.

Given the lack of comparable precedent, it is difficult for us to predict the future impacts on our U.K. based operations, which accounted for approximately 15% of our total sales for the year ended October 31, 2020. Since we manufacture and sell a majority of our U.K. products within the U.K., there is minimal risk to our ability to physically deliver goods and complete sales. The primary risk mitigation focus for our U.K. operations centers on the availability and pricing of raw materials. While we source the majority of our raw materials from within the U.K., many of the primary upstream raw materials our vendors use are being sourced from outside of the U.K., which could expose us to cross-border issues and raw material price impacts. We will mitigate this potential impact of Brexit on the import of goods to the U.K. by strategically managing our inventory levels and logistical channels.

The global economy remains uncertain due to currency devaluations, political unrest, terror threats, global pandemics such as COVID-19, and even the political landscape in the U.S. These and other macro-economic factors have impacted the global financial markets, which may have contributed to significant changes in foreign currencies. We continue to monitor our exposure to changes in exchange rates.

Results of Operations

Three Months Ended July 31, 2021 Compared to Three Months Ended July 31, 2020

	Three Months Ended July 31,			
	2021	2020	Change \$	% Variance
	(Dollars in millions)			
Net sales	\$ 279.9	\$ 212.1	\$ 67.8	32 %
Cost of sales (excluding depreciation and amortization)	219.8	162.4	57.4	(35)%
Selling, general and administrative	27.8	22.0	5.8	(26)%
Restructuring charges	—	0.1	(0.1)	100 %
Depreciation and amortization	10.6	11.0	(0.4)	4 %
Operating income	21.7	16.6	5.1	31 %
Interest expense	(0.6)	(1.2)	0.6	50 %
Other, net	0.1	(0.2)	0.3	150 %
Income tax expense	(7.5)	(4.4)	(3.1)	(70)%
Net income	\$ 13.7	\$ 10.8	\$ 2.9	27 %

Our period-over-period results by reportable segment follow.

Changes Related to Operating Income by Reportable Segment:

NA Fenestration

	Three Months Ended July 31,			
	2021	2020	\$ Change	% Variance
	(Dollars in millions)			
Net sales	\$ 147.7	\$ 122.4	\$ 25.3	21%
Cost of sales (excluding depreciation and amortization)	116.5	92.6	23.9	(26)%
Selling, general and administrative	13.3	11.9	1.4	(12)%
Restructuring charges	—	0.1	(0.1)	100%
Depreciation and amortization	4.4	5.4	(1.0)	19%
Operating income	\$ 13.5	\$ 12.4	\$ 1.1	9%
Operating income margin	9 %	10 %		

Net Sales. Net sales increased \$25.3 million, or 21%, for the three months ended July 31, 2021 compared to the same period in 2020, which was primarily driven by a \$17.6 million increase in volumes, including a recovery from prior year COVID-19 impacts, and an increase in price and raw material surcharges of \$7.9 million.

Cost of Sales. The cost of sales increased \$23.9 million, or 26%, for the three months ended July 31, 2021 compared to the same period in 2020. Cost of sales, including labor, increased primarily due to higher volumes during the period as well as the inflation of raw materials.

Selling, General and Administrative. Selling, general and administrative expenses increased \$1.4 million, or 12%, for the three months ended July 31, 2021 compared to the same period in 2020, primarily due to increased general expenses year-over-year.

Restructuring Charges. Restructuring charges for the three months ended July 31, 2020 relate to facility lease expense for a U.S. vinyl extrusion plant which was closed in January 2017. We exited the lease during December 2020.

Depreciation and Amortization. Depreciation and amortization expense decreased \$1.0 million for the three months ended July 31, 2021 compared to the same period in 2020, reflecting the run-off of depreciation expense related to existing assets and disposals during the period.

EU Fenestration

	Three Months Ended July 31,			
	2021	2020	\$ Change	% Variance
	(Dollars in millions)			
Net sales	\$ 71.2	\$ 38.2	\$ 33.0	86%
Cost of sales (excluding depreciation and amortization)	49.4	25.8	23.6	(91)%
Selling, general and administrative	7.6	4.8	2.8	(58)%
Depreciation and amortization	2.7	2.3	0.4	(17)%
Operating income	<u>\$ 11.5</u>	<u>\$ 5.3</u>	<u>\$ 6.2</u>	<u>117%</u>
Operating income margin	16 %	14 %		

Net Sales. Net sales increased \$33.0 million, or 86%, for the three months ended July 31, 2021 compared to the same period in 2020, which was primarily driven by a \$26.8 million increase in volumes, including a recovery from prior year COVID-19 impacts, \$4.1 million of foreign currency rate changes, and \$2.2 million of base price increases. These increases were partially offset by a temporary closure of our manufacturing facility in Germany due to flooding in July 2021.

Cost of Sales. The cost of sales increased \$23.6 million, or 91%, for the three months ended July 31, 2021 compared to the same period in 2020. Cost of sales increased primarily due to higher volumes during the period.

Selling, General and Administrative. Selling, general and administrative expense increased \$2.8 million, or 58%, for the three months ended July 31, 2021 compared to the same period in 2020. The increase is primarily due to higher compensation, general expenses and foreign currency impacts year-over-year.

NA Cabinet Components

	Three Months Ended July 31,			
	2021	2020	\$ Change	Variance %
	(Dollars in millions)			
Net sales	\$ 61.9	\$ 51.9	\$ 10.0	19%
Cost of sales (excluding depreciation and amortization)	54.4	44.2	10.2	(23)%
Selling, general and administrative	5.2	4.6	0.6	(13)%
Depreciation and amortization	3.4	3.2	0.2	(6)%
Operating loss	<u>\$ (1.1)</u>	<u>\$ (0.1)</u>	<u>\$ (1.0)</u>	<u>(1,000)%</u>
Operating loss margin	(2)%	— %		

Net Sales. Net sales increased \$10.0 million, or 19%, for the three months ended July 31, 2021 compared to the same period in 2020, which was driven by an increase in price and raw material indexes of \$5.9 million and a \$4.1 million increase in volumes.

Cost of Sales. Cost of sales increased \$10.2 million, or 23%, for the three months ended July 31, 2021 compared to the same period in 2020. Cost of sales increased primarily due to rising lumber prices, which are recovered on a lag, and higher volumes during the period.

Selling, General and Administrative. Selling, general and administrative expense increased \$0.6 million, or 13%, for the three months ended July 31, 2021 compared to the same period in 2020, primarily due to higher compensation and general expenses year-over-year.

Unallocated Corporate & Other

	Three Months Ended July 31,			
	2021	2020	\$ Change	Variance %
	(Dollars in millions)			
Net sales	\$ (0.9)	\$ (0.4)	\$ (0.5)	125%
Cost of sales (excluding depreciation and amortization)	(0.5)	(0.2)	(0.3)	150%
Selling, general and administrative	1.7	0.7	1.0	143%
Depreciation and amortization	0.1	0.1	—	—%
Operating (loss) income	<u>\$ (2.2)</u>	<u>\$ (1.0)</u>	<u>\$ (1.2)</u>	120%

Net Sales. Net sales for Unallocated Corporate & Other represents the elimination of inter-segment sales for the three months ended July 31, 2021 and 2020.

Cost of Sales. Cost of sales for Unallocated Corporate & Other consists of the elimination of inter-segment sales, profit in inventory, and other costs.

Selling, General and Administrative. Selling, general and administrative expenses increased \$1.0 million, or 143%, for the three months ended July 31, 2021 compared to the same period in 2020. This increase is attributable to \$1.7 million of medical expenses due to a higher claims experience partially offset by \$0.4 million of lower compensation expense related to the valuations of our stock based compensation awards and executive bonuses during the three months ended July 31, 2021 as compared to the prior year period.

Changes related to Non-Operating Items:

Interest Expense. Interest expense decreased \$0.6 million for the three months ended July 31, 2021 compared to the same period in 2020 as a result of lower interest rates and lower borrowings outstanding during the period.

Income Taxes. We recorded income tax expense of \$7.5 million on pre-tax income of \$21.2 million for the three months ended July 31, 2021, an effective rate of 35.3%, and income tax expense of \$4.4 million on pre-tax income of \$15.2 million for the three months ended July 31, 2020, an effective rate of 28.6%. The \$3.1 million increase in income tax expense year-over-year was primarily driven by the remeasurement of our deferred income tax assets and liabilities related to the increase in the corporate tax rate in the U.K. from 19% to 25%.

Nine Months Ended July 31, 2021 Compared to Nine Months Ended July 31, 2020

	Nine Months Ended July 31,			
	2021	2020	Change \$	% Variance
	(Dollars in millions)			
Net sales	\$ 780.4	\$ 596.1	\$ 184.3	31 %
Cost of sales (excluding depreciation and amortization)	604.7	469.6	135.1	(29)%
Selling, general and administrative	88.3	62.8	25.5	(41)%
Restructuring charges	—	0.5	(0.5)	100 %
Depreciation and amortization	32.5	35.8	(3.3)	9 %
Operating income	54.9	27.4	27.5	100 %
Interest expense	(2.0)	(4.3)	2.3	53 %
Other, net	0.6	0.1	0.5	500 %
Income tax expense	(17.4)	(6.9)	(10.5)	(152)%
Net income	<u>\$ 36.1</u>	<u>\$ 16.3</u>	<u>\$ 19.8</u>	121 %

Our period-over-period results by reportable segment follow.

Changes Related to Operating Income by Reportable Segment:
NA Fenestration

	Nine Months Ended July 31,			
	2021	2020	\$ Change	% Variance
	(Dollars in millions)			
Net sales	\$ 422.0	\$ 341.4	\$ 80.6	24%
Cost of sales (excluding depreciation and amortization)	328.3	266.5	61.8	(23)%
Selling, general and administrative	38.9	35.0	3.9	(11)%
Restructuring charges	—	0.2	(0.2)	100%
Depreciation and amortization	14.4	18.3	(3.9)	21%
Operating income	<u>\$ 40.4</u>	<u>\$ 21.4</u>	<u>\$ 19.0</u>	89%
Operating income margin	10 %	6 %		

Net Sales. Net sales increased \$80.6 million, or 24%, for the nine months ended July 31, 2021 compared to the same period in 2020, which was primarily driven by a \$66.8 million increase in volumes, including a recovery from prior year COVID-19 impacts, and an increase in price and raw material surcharges of \$13.9 million.

Cost of Sales. The cost of sales increased \$61.8 million, or 23%, for the nine months ended July 31, 2021 as compared to the same period in 2020. Cost of sales, including labor, increased primarily due to higher volumes during the period as well as the inflation of raw materials.

Selling, General and Administrative. Selling, general and administrative expenses increased \$3.9 million, or 11%, for the nine months ended July 31, 2021 as compared to the same period in 2020. This increase was due primarily to higher compensation year-over-year.

Restructuring Charges. Restructuring charges for the nine months ended July 31, 2020 relate to facility lease expense for a U.S. vinyl extrusion plant which was closed in January 2017. We exited the lease during December 2020.

Depreciation and Amortization. Depreciation and amortization expense decreased \$3.9 million for the nine months ended July 31, 2021 as compared to the same period in 2020, reflecting the run-off of depreciation expense related to existing assets and disposals during the period.

EU Fenestration

	Nine Months Ended July 31,			
	2021	2020	\$ Change	Variance %
	(Dollars in millions)			
Net sales	\$ 181.9	\$ 104.2	\$ 77.7	75%
Cost of sales (excluding depreciation and amortization)	122.6	72.1	50.5	(70)%
Selling, general and administrative	21.6	16.0	5.6	(35)%
Depreciation and amortization	7.8	7.0	0.8	(11)%
Operating income	<u>\$ 29.9</u>	<u>\$ 9.1</u>	<u>\$ 20.8</u>	229%
Operating income margin	16 %	9 %		

Net Sales. Net sales increased \$77.7 million, or 75%, comparing the nine months ended July 31, 2021 to the same period in 2020, which was primarily driven by a \$64.4 million increase in volumes, including a recovery from prior year COVID-19 impacts and the reopening of manufacturing facilities in the U.K. which were forced to close for several weeks in the second quarter of 2020, \$8.6 million of foreign currency rate changes, and \$4.6 million of base price increases.

Cost of Sales. The cost of sales increased \$50.5 million, or 70%, for the nine months ended July 31, 2021 compared to the same period in 2020. Cost of sales increased primarily due to higher volumes during the period.

Selling, General and Administrative. Selling, general and administrative expense increased \$5.6 million, or 35%, for the nine months ended July 31, 2021 compared to the same period in 2020. The increase is primarily due to higher compensation, general expenses and foreign currency impacts year-over-year.

NA Cabinet Components

	Nine Months Ended July 31,			
	2021	2020	\$ Change	Variance %
	(Dollars in millions)			
Net sales	\$ 179.5	\$ 152.6	\$ 26.9	18%
Cost of sales (excluding depreciation and amortization)	155.4	132.2	23.2	(18)%
Selling, general and administrative	15.4	13.4	2.0	(15)%
Restructuring charges	—	0.3	(0.3)	100%
Depreciation and amortization	10.0	10.1	(0.1)	1%
Operating loss	\$ (1.3)	\$ (3.4)	\$ 2.1	62%
Operating loss margin	(1)%	(2)%		

Net Sales. Net sales increased \$26.9 million, or 18%, for the nine months ended July 31, 2021 compared to the same period in 2020, which was driven by a \$19.8 million increase in volumes and an increase in price and raw material indexes of \$7.1 million.

Cost of Sales. Cost of sales increased \$23.2 million, or 18%, for the nine months ended July 31, 2021 compared with the same period in 2020, primarily as a result of higher volumes and rising lumber prices, which are recovered on a lag.

Selling, General and Administrative. Selling, general and administrative expense increased \$2.0 million, or 15%, for the nine months ended July 31, 2021 compared to the same period in 2020, primarily due to higher compensation and general expenses year-over-year.

Restructuring Charges. Restructuring charges of \$0.3 million in the nine months ended July 31, 2020 related to severance, equipment moving, and other charges incurred for a plant closure.

Unallocated Corporate & Other

	Nine Months Ended July 31,			
	2021	2020	\$ Change	Variance %
	(Dollars in millions)			
Net sales	\$ (3.0)	\$ (2.1)	\$ (0.9)	(43)%
Cost of sales (excluding depreciation and amortization)	(1.6)	(1.2)	(0.4)	(33)%
Selling, general and administrative	12.4	(1.6)	14.0	(875)%
Depreciation and amortization	0.3	0.4	(0.1)	25%
Operating (loss) income	\$ (14.1)	\$ 0.3	\$ (14.4)	(4,800)%

Net Sales. Net sales for Unallocated Corporate & Other represents the elimination of inter-segment sales for the nine months ended July 31, 2021 and 2020.

Cost of Sales. Cost of sales for Unallocated Corporate & Other consists of the elimination of inter-segment sales, profit in inventory, and other costs.

Selling, General and Administrative. Selling, general and administrative expenses increased \$14.0 million, or 875%, for the nine months ended July 31, 2021 compared to the same period in 2020. This increase is attributable to \$9.3 million of higher compensation expense related to the valuations of our stock based compensation awards and executive bonuses, \$4.8 million of medical expenses due to a higher claims experience during nine months ended July 31, 2021 as compared to the prior year period, and \$1.4 million of loss on the sale of a plant. These increases were partially offset by a reduction in executive severance and legal charges.

Changes related to Non-Operating Items:

Interest Expense. Interest expense decreased \$2.3 million for the nine months ended July 31, 2021 compared to the same period in 2020 as a result of lower interest rates and lower borrowings outstanding during the period.

Income Taxes. We recorded income tax expense of \$17.4 million on pre-tax income of \$53.5 million for the nine months ended July 31, 2021, an effective rate of 32.5%, and income tax expense of \$6.9 million on a pre-tax income of \$23.2 million for the nine months ended July 31, 2020, an effective rate of 29.7%. The \$10.5 million increase in income tax expense year-over-year was primarily driven by the increase in pre-tax book income as well as the remeasurement of our deferred income tax assets and liabilities related to the increase in the corporate tax rate in the U.K. from 19% to 25%.

Liquidity and Capital Resources

Overview

Historically, our principal sources of funds have been cash on hand, cash flow from operations, and borrowings under our credit facilities.

We maintain a \$325.0 million revolving credit facility (the Credit Facility) that matures in 2023 (5-year term) and requires interest payments calculated at a variable market rate depending upon our Consolidated Leverage Ratio. The applicable rate during the nine months ended July 31, 2021 ranged from LIBOR + 1.50% to LIBOR + 1.25%. Our cost of capital could increase depending upon the Consolidated Leverage Ratio at the end of any given quarter. In addition to the Consolidated Leverage Ratio covenant, we are required to meet a Consolidated Interest Coverage Ratio covenant, and there are limitations on certain transactions including our ability to incur indebtedness, incur liens, dispose of material assets, acquire businesses, make restricted payments and pay dividends (limited to \$20.0 million per year). We are amortizing deferred financing fees of \$0.7 million straight-line over the remaining term of the facility. For further details of the Credit Facility, refer to Note 4, "Debt and Finance Lease Obligations" to the accompanying unaudited condensed consolidated financial statements contained elsewhere herein.

As of July 31, 2021, we had \$43.7 million of cash and equivalents, \$58.0 million outstanding under the Credit Facility, \$4.5 million of outstanding letters of credit and \$16.0 million outstanding under finance leases and other debt. We had \$262.5 million available for use under the Credit Facility at July 31, 2021.

We repatriated \$17.7 million and \$12.6 million of foreign cash during the nine months ended July 31, 2021 and 2020, respectively. We expect to repatriate excess cash moving forward and use the funds to retire debt or meet current working capital needs. In the U.K., we insure against a portion of our credit losses. We believe our business model, our current cash reserves and the recent steps we have taken to strengthen our balance sheet leave us well-positioned to manage our business and remain in compliance with our debt covenants.

Analysis of Cash Flow

The following table summarizes our cash flow results for the nine months ended July 31, 2021 and 2020:

	Nine Months Ended July 31,	
	2021	2020
	(In millions)	
Cash provided by operating activities	\$ 47.4	\$ 47.6
Cash used for investing activities	\$ (12.9)	\$ (20.5)
Cash used for financing activities	\$ (43.5)	\$ (17.4)

Operating Activities. Cash provided by operating activities for the nine months ended July 31, 2021 decreased \$0.2 million compared to the nine months ended July 31, 2020. The decrease in cash provided by operating activities is primarily due to an increase in working capital partially offset by higher net income year-over-year due to increased demand. The increase in working capital was largely driven by an inventory build and raw material price inflation.

Investing Activities. Cash used for investing activities decreased \$7.6 million for the nine months ended July 31, 2021 compared to the same period in 2020, primarily as a result of lower capital expenditures and an increase in proceeds from disposition of capital assets.

Financing Activities. Cash used for financing activities was \$43.5 million for the nine months ended July 31, 2021, which included \$45.5 million of debt repayments, \$8.0 million of dividends paid to our shareholders, and \$5.7 million of treasury stock repurchases. Our use of cash was partially offset by \$16.3 million of proceeds from stock option exercises.

Liquidity Requirements

Historically, our strategy for deploying cash has been to invest in organic growth opportunities, develop our infrastructure, and explore strategic acquisitions. Other uses of cash include paying cash dividends to our shareholders and repurchasing our common stock. During the nine months ended July 31, 2021 and 2020, we repatriated \$17.7 million and \$12.6 million, respectively, of foreign earnings from our foreign locations. We maintain cash balances in foreign countries which total \$16.8 million as of July 31, 2021.

Critical Accounting Policies and Estimates

The preparation of our financial statements in accordance with accounting principles generally accepted in the U.S. (U.S. GAAP) requires us to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. Estimates and assumptions about future events and their effects cannot be perceived with certainty. Estimates may change as new events occur, as more experience is acquired, as additional information becomes available and as our operating environment changes. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, and that we believe provide a basis for making judgments about the carrying value of assets and liabilities that are not readily available through open market quotes. We must use our judgment with regard to uncertainties in order to make these estimates. Actual results could differ from these estimates.

For a description of our critical accounting policies and estimates, see our Annual Report on Form 10-K for the fiscal year ended October 31, 2020. Our critical accounting policies and estimates have not changed materially during the nine months ended July 31, 2021.

While there have been no changes in the application of principles, methods, and assumptions used to determine our significant estimates, we may be required to revise certain accounting estimates and judgments related to the economic and business impact of the COVID-19 pandemic, such as, but not limited to, those related to the valuation of goodwill, intangibles, long-lived assets, accounts receivable, and inventory, which could have a material adverse effect on our financial position and results of operations.

New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) or other standards setting bodies that we adopt as of the specified effective date. Unless otherwise discussed, we believe the impact of any recently issued standards that are not yet effective are either not applicable to us at this time or will not have a material impact on our condensed consolidated financial statements upon adoption.

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)*. This ASU sets forth a “current expected credit loss” model, which requires the measurement of all expected credit losses for financial instruments or other assets (e.g., trade receivables), held at the reporting date based on historical experience, current conditions, and reasonable supportable forecasts. We adopted this amendment on November 1, 2020, with no material impact on our condensed consolidated financial statements.

Refer to our Annual Report on Form 10-K for the fiscal year ended October 31, 2020 for additional standards we are currently evaluating.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following discussion of our exposure to various market risks contains “forward looking statements” regarding our estimates, assumptions and beliefs concerning our exposure. Although we believe these estimates and assumptions are reasonable in light of information currently available to us, we cannot provide assurance that these estimates will not materially differ from actual results due to the inherent unpredictability of interest rates, foreign currency rates and commodity prices as well as other factors. We do not use derivative financial instruments for speculative or trading purposes.

Interest Rate Risk

Our outstanding debt bears interest at variable rates and accordingly is sensitive to changes in interest rates. Based upon the balances of the variable rate debt at July 31, 2021, a hypothetical 1.0% increase or decrease in interest rates could result in approximately \$0.6 million of additional pretax charges or credit to our net income per year. This sensitivity is impacted by the amount of borrowings under our credit facilities, and amounts outstanding under finance leases.

Foreign Currency Rate Risk

Our international operations have exposure to foreign currency rate risks, primarily due to fluctuations in the Euro, the British Pound Sterling and the Canadian Dollar. From time to time, we enter into foreign exchange contracts associated with our operations to manage a portion of the foreign currency rate risk. There were no corresponding foreign currency derivatives recorded on the Condensed Consolidated Balance Sheet as of October 31, 2020 or July 31, 2021. These foreign currency derivative contracts hedge cross-border intercompany and commercial activity for our insulating glass spacer business. Although these derivatives hedge our exposure to fluctuations in foreign currency rates, we do not apply hedge accounting and therefore, the change in the fair value of these foreign currency derivatives is recorded directly to other income and expense in the accompanying condensed consolidated statements of income. To the extent the gain or loss on the derivative instrument offsets the gain or loss from the re-measurement of the underlying foreign currency balance, changes in exchange rates should have no effect.

Commodity Price Risk

We purchase PVC as the significant raw material consumed in the manufacture of vinyl extrusions. We have resin adjusters in place with a majority of our customers and our resin supplier that is adjusted based upon published indices for lagging resin prices. These adjusters effectively share the base pass-through price changes of PVC with our customers commensurate with the market at large. Our long-term exposure to changes in PVC prices is somewhat mitigated due to the contractual component of the resin adjuster program. However, there is a level of exposure to short-term volatility due to timing lags.

We adjust the pricing of petroleum-based raw materials for the majority of our customers who purchase products using these materials. This is intended to offset the fluctuating cost of products which are highly correlated to the price of oil including butyl and other oil-based raw materials. This program is adjusted monthly based upon the 90-day average published price for Brent crude. The oil-based raw materials that we purchase are subject to similar pricing schemes. As such, our long-term exposure to increases in oil-based raw material prices is significantly reduced under this program.

Similarly, NA Cabinet Components includes a price index provision in the majority of its customer arrangements to insulate against significant fluctuations in the price for various hardwood products used as the primary raw material for kitchen and bathroom cabinet doors. Like our vinyl extrusion business, we are exposed to short-term volatility in wood prices due to a lag in the timing of price updates which generally could extend for up to three months.

We have begun implementing additional programs for other raw materials to facilitate more accurate pricing and reduce our exposure to changing material costs when necessary, however these are also subject to timing lags. While we maintain surcharges and other adjusters to manage our exposure to changes in the prices of our critical raw materials, we use several commodities in our business that are not covered by contractual surcharges or adjusters for which pricing can fluctuate, including PVC compound micro ingredients, silicone and other inputs. Further discussion of our industry risks is included within our Annual Report on Form 10-K for the fiscal year ended October 31, 2020.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (1934 Act) as of July 31, 2021. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of July 31, 2021, the disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There have been no changes in internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the 1934 Act) during the most recent fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities**

During the three months ended July 31, 2021, we repurchased common stock as follows:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of a Publicly Announced Plans or Programs ⁽¹⁾	(d) Maximum US Dollars Remaining that May Yet Be Used to Purchase Shares Under the Plans or Programs ⁽¹⁾
May 2021	—	\$ —	—	\$ 7,214,720
June 2021	—	—	—	\$ 7,214,720
July 2021	74,257	23.88	74,257	\$ 5,441,697
Total	74,257	\$ 23.88	74,257	

⁽¹⁾ On August 30, 2018, our Board of Directors approved a stock repurchase program that authorized the repurchase of up to \$60.0 million worth of shares of our common stock. Repurchases under the new program will be made in open market transactions or privately negotiated transactions, subject to market conditions, applicable legal requirements and other relevant factors. The program does not have an expiration date or a limit on the number of shares that may be repurchased.

Item 6. Exhibits

The exhibits required to be furnished pursuant to Item 6 are listed in the Exhibit Index filed herewith, which Exhibit Index is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QUANEX BUILDING PRODUCTS CORPORATION

/s/ Scott M. Zuehlke

Scott M. Zuehlke

Senior Vice President - Chief Financial Officer & Treasurer
(Principal Financial Officer)

Date: September 3, 2021

EXHIBIT INDEX

Exhibit Number	Description of Exhibits
<u>3.1</u>	<u>Restated Certificate of Incorporation of the Registrant dated as of March 4, 2016, filed as Exhibit 3.1 of the Registrant's Current Report on Form 8-K (Reg. No. 001-33913) as filed with the Securities and Exchange Commission on March 7, 2016, and incorporated herein by reference.</u>
<u>3.2</u>	<u>Fourth Amended and Restated Bylaws of the Registrant dated as of February 27, 2020, filed as Exhibit 3.2 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-33913) for the quarter ended January 31, 2020, and incorporated herein by reference.</u>
<u>4.1</u>	<u>Form of Registrant's Common Stock certificate, filed as Exhibit 4.1 of Amendment No. 1 to the Registrant's Registration Statement on Form 10 (Reg. No. 001-33913) as filed with the Securities and Exchange Commission on February 14, 2008, and incorporated herein by reference.</u>
<u>4.2</u>	<u>Credit Agreement dated as of October 18, 2018, by and among the Company; the lenders party thereto; and Wells Fargo Bank, National Association, as Agent; filed as Exhibit 10.1 of the Registrant's Current Report on Form 8-K (Reg. No. 001-33913) as filed with the Securities and Exchange Commission on October 18, 2018, and incorporated herein by reference.</u>
<u>4.3</u>	<u>Amendment No. 1 to Amended and Restated Credit Agreement, by and among the Company; the lenders party thereto; and Wells Fargo Bank, National Association, as Agent (portions redacted), filed as Exhibit 4.3 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-33913) for the quarter ended July 31, 2020, and incorporated herein by reference.</u>
<u>*31.1</u>	<u>Certification by chief executive officer pursuant to Rule 13a-14(a)/15d-14(a).</u>
<u>*31.2</u>	<u>Certification by chief financial officer pursuant to Rule 13a-14(a)/15d-14(a).</u>
<u>*32.1</u>	<u>Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
*101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
*101.SCH	XBRL Taxonomy Extension Schema Document
*101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
*101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
*101.LAB	XBRL Taxonomy Extension Label Linkbase Document
*101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

As permitted by Item 601(b)(4)(iii)(A) of Regulation S-K, the Registrant has not filed with this Quarterly Report on Form 10-Q certain instruments defining the rights of holders of long-term debt of the Registrant and its subsidiaries because the total amount of securities authorized under any of such instruments does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis. The Registrant agrees to furnish a copy of any such agreements to the Securities and Exchange Commission upon request.

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, George L. Wilson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quanex Building Products Corporation (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures [as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)] and internal control over financial reporting [as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)] for the Registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

September 3, 2021

/s/ George L. Wilson

George L. Wilson
President and Chief Executive Officer
(Principal Executive Officer)

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Scott M. Zuehlke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quanex Building Products Corporation (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures [as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)] and internal control over financial reporting [as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)] for the Registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

September 3, 2021

/s/ Scott M. Zuehlke

Scott M. Zuehlke
Senior Vice President - Chief Financial Officer and Treasurer
(Principal Financial Officer)

Certification Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002

We hereby certify that the accompanying Quarterly Report on Form 10-Q of Quanex Building Products Corporation for the quarter ended July 31, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of Quanex Building Products Corporation.

September 3, 2021

/s/ George L. Wilson

George L. Wilson
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Scott M. Zuehlke

Scott M. Zuehlke
Senior Vice President—Chief Financial Officer and Treasurer
(Principal Financial Officer)