



Investor Presentation

September 2019

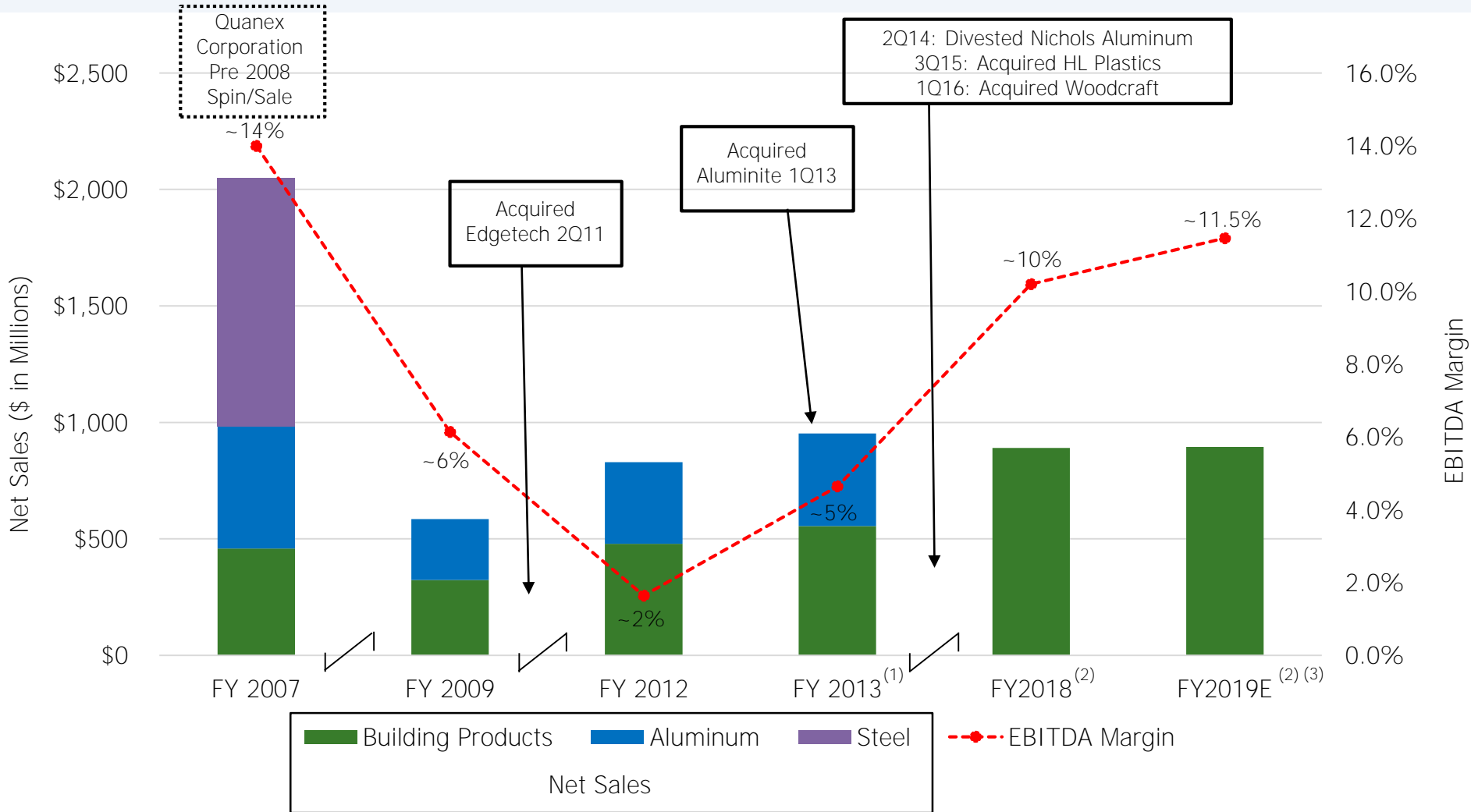
# Safe Harbor Statement

Note on Forward Looking Statements: Statements that use the words “estimated,” “expect,” “could,” “should,” “believe,” “will,” “might,” or similar words reflecting future expectations or beliefs are forward-looking statements. The forward-looking statements include, but are not limited to, the **Company’s** future operating results, future financial condition, future uses of cash and other expenditures, expenses and tax rates, expectations relating to **Quanex’s** industry, and the **Company’s** future growth, including any guidance referenced in this presentation. The statements and guidance set forth in this release are based on current expectations. Actual results or events may differ materially from this release. For a complete discussion of factors that may affect **Quanex’s** future performance, please refer to the **Company’s** Annual Report on Form 10-K for the fiscal year ended October 31, 2017, under the sections entitled “**Cautionary Note Regarding Forward-Looking Statements**” and “**Risk Factors**”. Any forward-looking statements in this presentation are made as of the date hereof, and Quanex undertakes no obligation to update or revise any forward-looking statements to reflect new information or events.

Note on Non-GAAP Financial Measures: Adjusted Net Income (Loss) (defined as net income further adjusted to exclude purchase price accounting inventory step-ups, transaction costs, certain severance charges, gain/loss on the sale of fixed assets, restructuring charges, asset impairment charges, other net adjustments related to foreign currency transaction gain/loss and effective tax rates reflecting impacts of adjustments on a with and without basis) and EBITDA (defined as net income or loss before interest, taxes, depreciation and amortization and other, net, as described in the **Company’s** filings with the Securities and Exchange Commission) are non-GAAP financial measure that Quanex’s management uses to measure its operational performance and assist with financial decision-making. Adjusted EBITDA is EBITDA as further adjusted to exclude non-recurring items such as purchase price inventory step-ups, transaction costs, certain severance charges, gain/loss on the sale of fixed assets, restructuring charges and asset impairment charges. Free Cash Flow is a non-GAAP measure calculated using cash provided by operating activities less capital expenditures. Free Cash Flow is measured before application of certain contractual commitments (including capital lease obligations), and accordingly is not a true measure of the Company’s residual cash flow available for discretionary expenditures. Quanex believes these non-GAAP measures provide a consistent basis for comparison between periods, and will assist investors in understanding the **Company’s** financial performance when comparing our results to other investment opportunities. While Quanex considers Adjusted Net Income, EBITDA, Adjusted EBITDA and Free Cash Flow to be important measures of operating performance, it does not intend for this information to be considered in isolation or as a substitute for net income or other measures prepared in accordance with US GAAP. Due to the high variability and difficulty in predicting certain items that affect GAAP net income (such as unusual gains and losses, fluctuations in foreign currency exchange rates, the impact and timing of potential acquisitions or divestitures and the timing and potential significance of tax considerations), information reconciling forward-looking Adjusted EBITDA as presented to GAAP financial measures is generally not available without unreasonable effort. The presented non-GAAP measures may not be the same as those used by other companies. The Company does not intend for this information to be considered in isolation or as a substitute for other measures prepared in accordance with U.S. GAAP.

# Evolution of Quanex

## SIGNIFICANT IMPROVEMENT IN PROFITABILITY



(1) Bill Griffiths appointed Chairman, President and CEO in July 2013.

(2) EBITDA adjusted to exclude non-recurring items referenced in Safe Harbor Statement on slide 2.

(3) Calculated using the midpoint of fiscal 2019 guidance.

# Quanex At-A-Glance

## INDUSTRY-LEADING, "PURE PLAY" BUILDING PRODUCTS MANUFACTURER

Quanex is the largest supplier of components to OEMs in the building products sector. OEMs' customer base predominately focused on serving new construction and R&R markets

### MANUFACTURING FACILITIES

- 34 locations (~3.4 million sq. ft.)
- Sufficient capacity for growth

### KEY LTM FINANCIALS as of 7.31.19

- Net Sales: \$897.6 Million
- Net Loss: \$9.3 Million<sup>(1)</sup>
- Adjusted Net Income: \$25.2 Million
- Adjusted EBITDA: \$93.5 Million<sup>(2)</sup>
- Cash Provided by Operating Activities: \$86.2 Million
- Free Cash Flow: \$63.8 Million<sup>(3)</sup>

### CORPORATE HEADQUARTERS

Houston, Texas

### EMPLOYEES

~4,000

### EXPERIENCED MANAGEMENT TEAM

Quanex is taking the right steps to drive continued growth and value creation.

(1) Includes a \$30 million non-cash goodwill impairment in the North American Cabinet Components segment in 2Q19.

(2) Adjusted EBITDA excludes non-recurring items referenced in Safe Harbor Statement on slide 2.

(3) Free Cash Flow defined as cash provided by operating activities less capital expenditures. Free Cash Flow is measured before application of certain contractual commitments (including capital lease obligations), and accordingly is not a true measure of the Company's residual cash flow available for discretionary expenditures.

~55%  
NA FENESTRATION  
(~60% R&R)



~30%  
NA CABINET COMPONENTS  
(~70% R&R)



~15%  
EU FENESTRATION  
(~95% R&R)





# Geographic Footprint

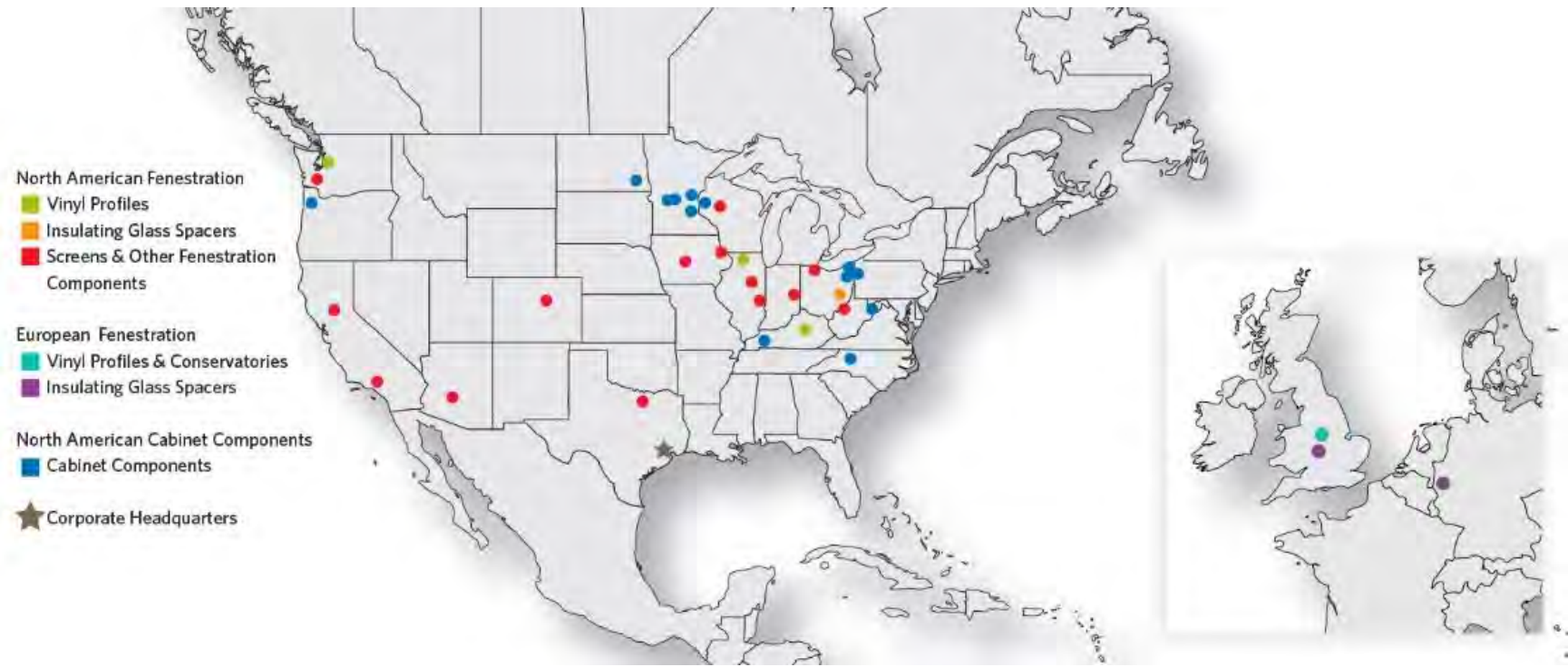
## FACILITIES STRATEGICALLY LOCATED TO BETTER SERVE CUSTOMERS

31  
U.S.

2  
U.K.

1  
Germany

- Facilities feature efficient plant design and flexible manufacturing processes, enabling Quanex to produce a wide variety of custom engineered products and components with short lead times
- Quanex maintains minimal levels of finished goods inventories at most locations as products are typically made to order for just-in-time (JIT) delivery

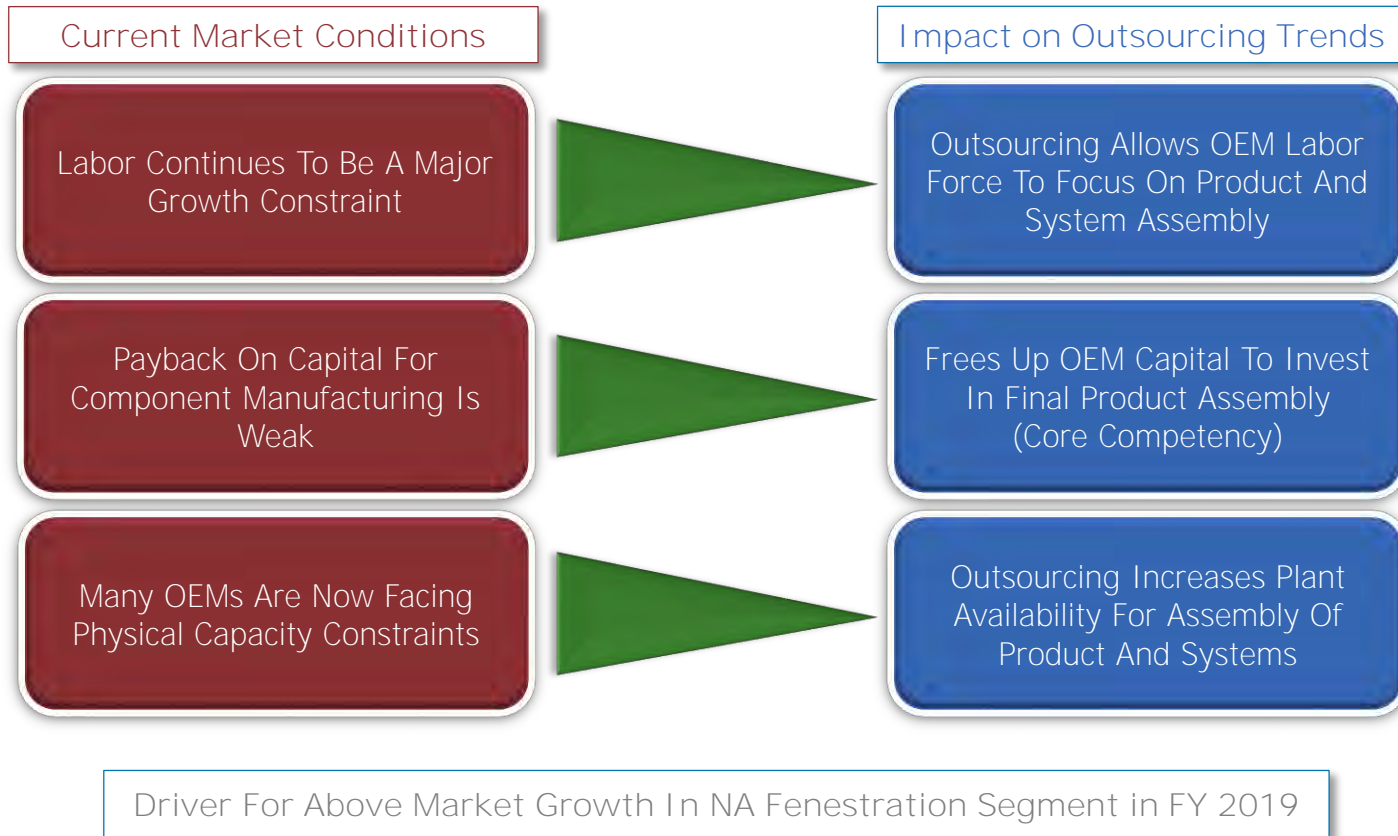




# Outsourcing Trends to Benefit Quanex

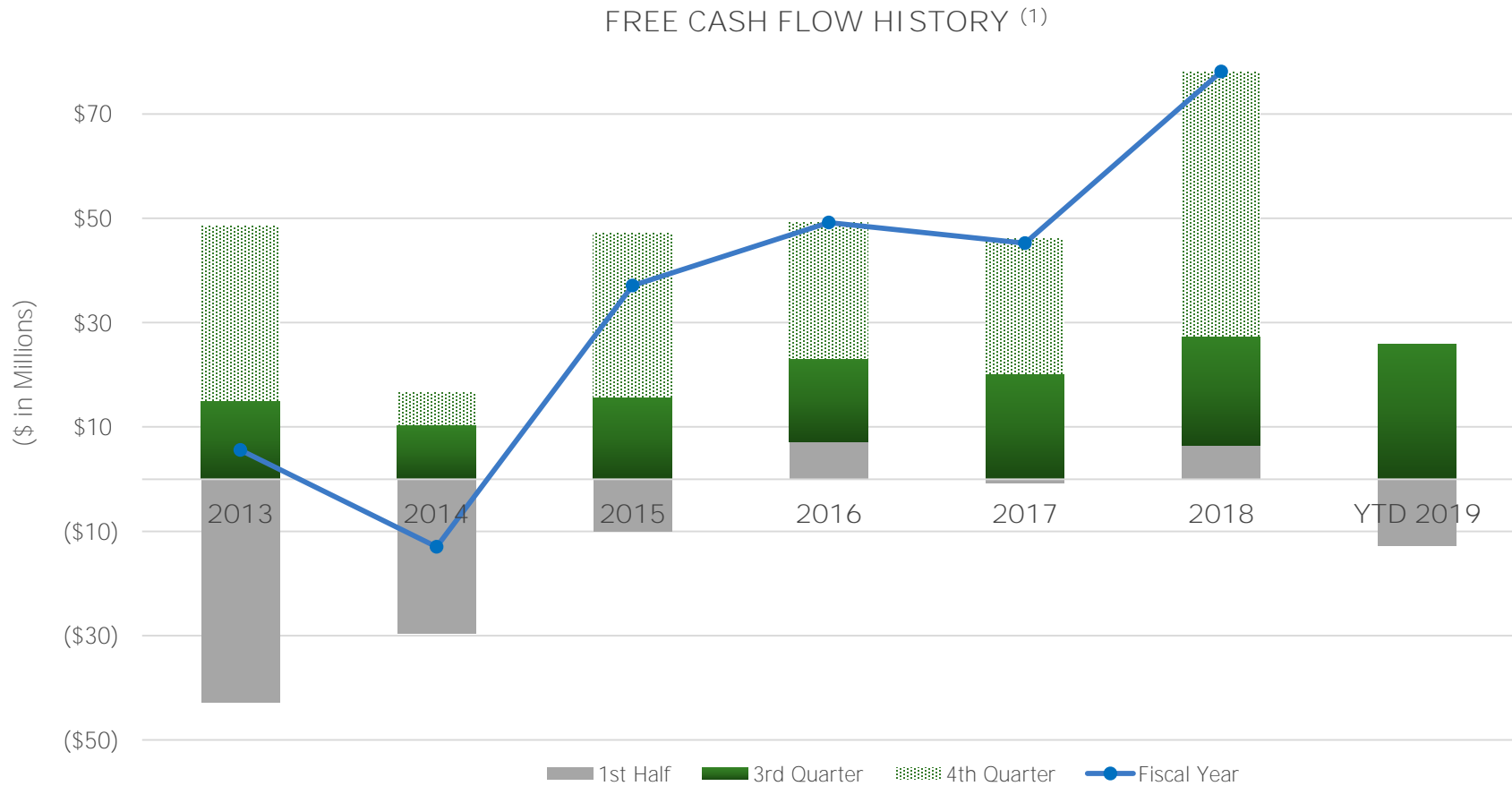
DOMESTIC WINDOW OEMs ANTICIPATED TO FAVOR COMPONENT OUTSOURCING GOING FORWARD

Rationale for Expected Growth in Outsourcing Includes:



# Favorable Free Cash Flow Trend – 2H Weighted

FREE CASH FLOW GENERATION IS TOP PRIORITY



Note: Please reference slide 14 in the Appendix for a reconciliation of Cash provided by operating activities to Free Cash Flow.

1) Free Cash Flow defined as cash provided by operating activities less capital expenditures. Free Cash Flow is measured before application of certain contractual commitments (including capital lease obligations), and accordingly is not a true measure of the Company's residual cash flow available for discretionary expenditures.



# Q3 2019 Earnings & 2019 Guidance

## Q3 2019 Earnings Highlights

- Above market sales growth in NA & EU Fenestration segments
- Consolidated margin expansion of ~100 basis points
- Free Cash Flow improved by ~23% Y/Y
- **Reduction in Leverage Ratio<sup>(1)</sup>...continue** to target fiscal year-end 2019 Leverage Ratio of ~1.5x

## 2019 Guidance

~ \$890M  
Net Sales

*Topline Flat Y/Y*

~ \$100 - \$105M  
Adjusted EBITDA

*Margin Expansion ~130bps  
Y/Y to the Midpoint of  
Guidance*

~ \$25 - 30M  
Capex

~ 25%<sup>(2)</sup>  
Tax Rate

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

(2) Tax rate guidance on an adjusted basis.



# Quanex: A Compelling Investment Opportunity

## EXECUTING ON STRATEGIC PRIORITIES TO DRIVE SHAREHOLDER VALUE CREATION

- ✓ Favorable components outsourcing trend supports opportunity to drive above market growth in key categories
- ✓ **Solid balance sheet...expect to exit FY 2019 with Leverage Ratio<sup>(1)</sup> of ~1.5x**
- ✓ Delivering strong annual free cash flow
- ✓ Quarterly cash dividend of \$0.08/share (~2% dividend yield)
- ✓ ~\$22 million remaining under existing share repurchase program as of 7/31/19

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

# APPENDIX

# Solid Balance Sheet with Flexible Capital Structure

## RENEWED FOCUS ON RETURNING CAPITAL TO SHAREHOLDERS

	NX 7.31.19
Capitalization (\$ in thousands)	
Cash & Cash Equivalents	\$10,651
Senior Secured Revolving Credit Facility due 2023 <sup>(1)</sup>	177,500
Capital Leases and Other	15,742
Total Debt	\$193,242
<i>Net Debt</i>	<i>\$182,591</i>
Stockholders' Equity	361,350
Total Capitalization	<u>\$554,592</u>
Borrowing Base <sup>(1)</sup>	325,000
Less: Borrowings Against Revolving Credit Facility	177,500
Plus: Cash	<u>10,651</u>
Total Liquidity	<u>\$158,151</u>
<b>Net Debt/LTM Adj. EBITDA <sup>(2)</sup></b>	<b>2.0x</b>

Ample Capacity  
on Revolver

Expect to Exit  
FY 2019 closer  
to 1.5x

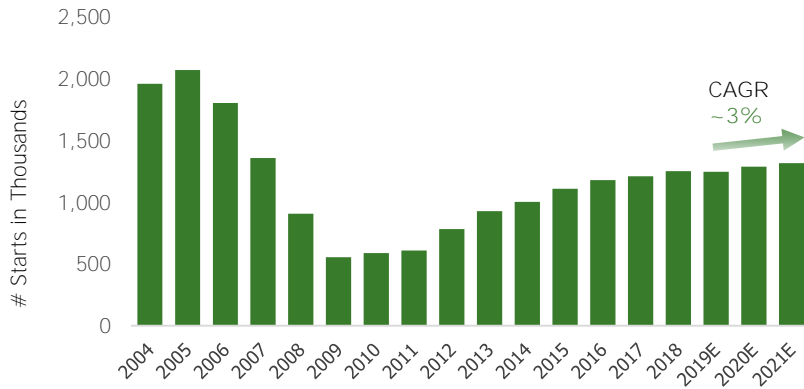
(1) Excludes outstanding letters of credit.

(2) LTM Adjusted EBITDA excludes non-recurring items referenced in Safe Harbor Statement on slide 2.

# End Market Dynamics

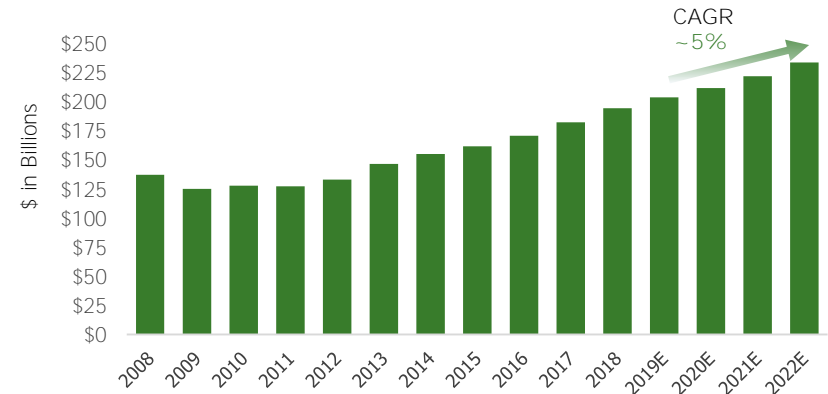
EXPECT LOW-SINGLE DIGIT CONSOLIDATED MARKET GROWTH FOR FORESEEABLE FUTURE

## U.S. HOUSING STARTS



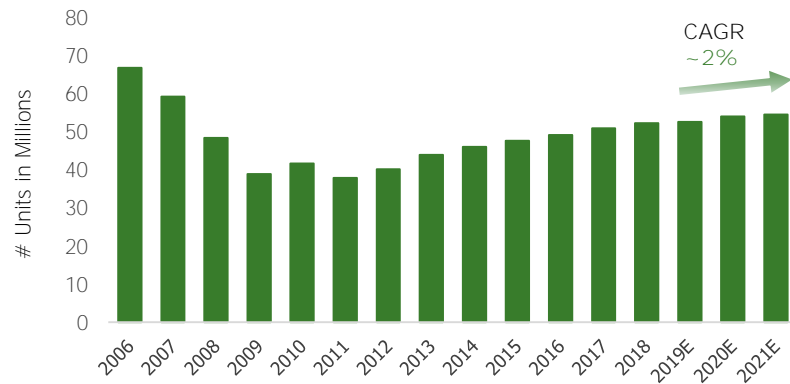
Source: NAHB - Jun 2019

## U.S. R&R SPENDING



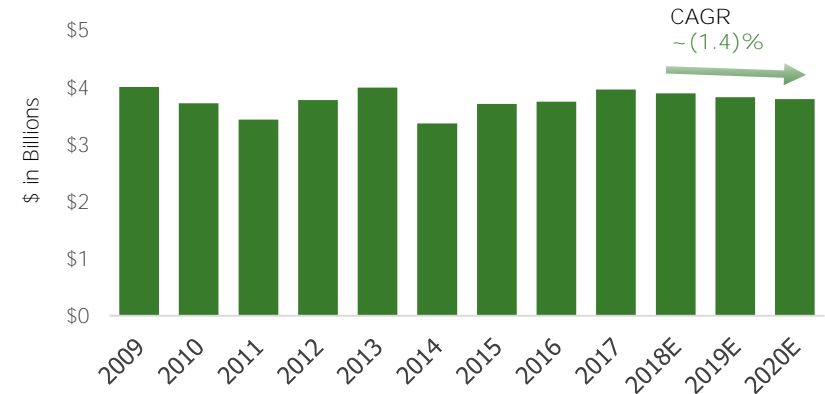
Source: Metrostudy (a Hanley-Wood company) - Jun 2019

## U.S. WINDOW SHIPMENTS



Source: Ducker Worldwide - May 2019

## U.S. SEMI-CUSTOM KITCHEN CABINET SALES



Source: Catalina - Jun 2019



# Executive Compensation

## Aligned with Shareholders

### Performance-based compensation philosophy (~73% variable) at target

- Base salary targeted at market 50<sup>th</sup> percentile (~27% of Total Direct Compensation (TDC))
- Annual incentive award based on specific metrics (~21% of TDC)
- Long-term incentives (~53% of TDC)

### 2019 Annual Incentive Award

- 50% weighting on Revenue growth
- 50% weighting on EBITDA growth
- Modifier based on working capital as a percentage of revenue

### 2019 Long-Term Incentive (~70% performance based - shareholder alignment)

- Performance Shares: 40% weighting (3-year performance period)
  - 100% Return on Net Assets (RONA)
  - Payout 100% cash
- Performance Restricted Stock Units: 30% weighting (3-year performance period)
  - Final payout based on Absolute Total Shareholder Return (ATSR)
  - Payout 100% common stock
- Restricted Stock: 30% weighting

Shareholder approval of ~97% + since implementing Say-on-Pay

# GAAP/Non-GAAP Reconciliation (Unaudited)

## FREE CASH FLOW

(\$ in thousands)	Q1	Q2	Q3	Q4	Fiscal 2013
Cash provided by operating activities	(\$30,340)	\$9,557	\$27,360	\$36,942	\$43,519
Capital expenditures	(\$11,500)	(\$10,596)	(\$12,421)	(\$3,414)	(\$37,931)
Free Cash Flow	(\$41,840)	(\$1,039)	\$14,939	\$33,528	\$5,588

(\$ in thousands)	Q1	Q2	Q3	Q4	Fiscal 2014
Cash provided by operating activities	(\$11,484)	\$461	\$20,777	\$11,024	\$20,778
Capital expenditures	(\$6,748)	(\$11,849)	(\$10,429)	(\$4,753)	(\$33,779)
Free Cash Flow	(\$18,232)	(\$11,388)	\$10,348	\$6,271	(\$13,001)

(\$ in thousands)	Q1	Q2	Q3	Q4	Fiscal 2015
Cash provided by operating activities	(\$5,747)	\$9,055	\$24,241	\$39,538	\$67,087
Capital expenditures	(\$7,321)	(\$6,060)	(\$8,537)	(\$8,064)	(\$29,982)
Free Cash Flow	(\$13,068)	\$2,995	\$15,704	\$31,474	\$37,105

(\$ in thousands)	Q1	Q2	Q3	Q4	Fiscal 2016
Cash provided by operating activities	\$779	\$23,809	\$24,470	\$37,360	\$86,418
Capital expenditures	(\$8,652)	(\$8,767)	(\$8,519)	(\$11,305)	(\$37,243)
Free Cash Flow	(\$7,873)	\$15,042	\$15,951	\$26,055	\$49,175

(\$ in thousands)	Q1	Q2	Q3	Q4	Fiscal 2017
Cash provided by operating activities	\$3,081	\$13,648	\$29,736	\$33,313	\$79,778
Capital expenditures	(\$8,141)	(\$9,409)	(\$9,548)	(\$7,466)	(\$34,564)
Free Cash Flow	(\$5,060)	\$4,239	\$20,188	\$25,847	\$45,214

(\$ in thousands)	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Fiscal 2018
Cash provided by operating activities	\$8,192	\$13,423	\$26,838	\$56,158	\$104,611
Capital expenditures	(\$7,811)	(\$7,402)	(\$5,885)	(\$5,386)	(\$26,484)
Free Cash Flow	\$381	\$6,021	\$20,953	\$50,772	\$78,127

(\$ in thousands)	Q1 2019	Q2 2019	Q3 2019
Cash provided by operating activities	(\$20,243)	\$20,386	\$29,893
Capital expenditures	(\$6,271)	(\$6,751)	(\$3,962)
Free Cash Flow	(\$26,514)	\$13,635	\$25,931

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