



## Quanex Announces Fiscal Fourth Quarter and Fiscal 2002 Annual Results

December 5, 2002

Company Reports Best-Ever Quarterly Diluted Earnings Per Share of \$.97 And Best-Ever Yearly Diluted Earnings Per Share of \$2.96 (excluding a \$.56 Life Insurance Benefit)

Engineered Products Group Reports Best-Ever Operating Income for the Quarter

And Year

HOUSTON, Dec. 5 /PRNewswire-FirstCall/ -- Quanex Corporation (NYSE: NX) today announced fiscal 2002 fourth quarter and annual results for the period ending October 31, 2002. Net sales for the quarter were \$273.8 million and \$994.4 million for the year, both new records. The Company commented that sales for the quarter were very robust in Quanex's two business segments -- Vehicular Products and Building Products. Net income and diluted earnings per share for the quarter were \$15.1 million and \$.97, respectively. For the year, excluding the executive life insurance benefit of \$9.0 million, net income and diluted earnings per share were \$46.5 million and \$2.96, respectively. These figures are records from continuing operations and demonstrate Quanex's ability to generate healthy earnings notwithstanding the somewhat weak broad-based economic climate.

Net sales for the fourth quarter 2001 were \$256.0 million, and for the year, \$924.4 million. Net income for the year ago quarter was \$11.2 million and \$29.2 million for the year. Diluted earnings per share for the fourth quarter 2001 were \$.77 and for the year were \$2.07.

### Highlights

Regarding the Company's results, Raymond A. Jean, chairman and chief executive officer stated, "Quanex had an excellent fourth quarter to cap a record setting year. End market demand was strong and we delivered a 43% improvement in diluted earnings per share year over year while continuing to deliver outstanding service to our customers. Strong operating leverage, an unrelenting attack on reducing costs, and the introduction of new programs and products allowed us to achieve these excellent results."

"We continue to improve an already strong financial position," continued Jean. "At the start of the fiscal year, our total debt to capitalization was 44%, and we finished the year at 15.2%. This is a tremendous achievement for the Company and it gives us the financial strength and flexibility needed to support internal growth initiatives and to make meaningful acquisitions. Our principle focus for any future acquisition is to grow our two core businesses, MACSTEEL (MAC) and Engineered Products, and any acquisition must return in excess of its cost of capital," said Jean.

Quarterly and Yearly Financials (\$ in millions, except per share data, excluding life ins. benefit)

	4th qtr 2002	4th qtr 2001	inc/dcr	FY 2002	FY 2001	inc/dcr
Net Sales	\$273.8	\$256.0	7%	\$994.4	\$924.4	8%
Operating Cash Flow*	38.2	32.2	19%	127.0	101.7	25%
Operating Income	28.4	20.9	36%	83.3	57.3	45%
Net Income	15.1	11.2	35%	46.5	29.2	59%
EPS: Basic	\$ .92	\$ .84	10%	\$ 3.13	\$ 2.18	44%
EPS: Diluted	\$ .97	\$ .77	26%	\$ 2.96	\$ 2.07	43%

\*Operating cash flow is defined as operating income with depreciation, amortization expenses and other unusual items added back.

### Segment Commentary

VEHICULAR PRODUCTS - (\$ in millions)

	4th qtr 2002	4th qtr 2001	FY2002	FY2001
Net sales:	\$122.0	\$121.0	\$459.5	\$439.3
Opr. income:	15.8	15.4	57.6	47.5

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

"Strong North American light vehicle builds continue to drive demand for MACSTEEL's engineered steel bar products. This year's light vehicle builds, which had been estimated to be about 15.2 million builds this time a year ago, will finish the year closer to 16.8 million, exceeding 2001 builds by some 8%. On top of these excellent build rates, MACSTEEL remains the supplier of choice and continues to capture new programs. Ongoing lean initiatives contribute to MAC's success and both facilities reported record productivity gains again this quarter," said Jean.

"Phase VI, MACSTEEL's \$50 million capital program to expand its value-added MAC+ product at its two facilities, is complete. The latest MAC+ line at Fort Smith completed its 'shakedown' last quarter and contributed to operating results during the fourth quarter. They expect to have this additional 45,000 tons of MAC+ capacity sold out by early next year."

"With the exception of Piper Impact, the other businesses within the segment each reported positive operating income for the quarter. Piper Impact experienced a \$1.0 million loss on 8% lower sales compared to the third quarter as the decline in aluminum air bag sales accelerated. New business prospects look promising, but meaningful sales volumes are slower to ramp-up than expected," continued Jean.

BUILDING PRODUCTS - (\$ in millions)

	4th qtr 2002	4th qtr 2001	FY 2002	FY 2001
Net sales:	\$151.7	\$135.1	\$534.9	\$485.0
Opr. income:	13.6	8.9	38.0	23.7

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

"Engineered Products reported best-ever net sales and record operating income for the quarter. Steadfast consumers continue to invest in new homes and continue to upgrade existing ones. The outlook going forward remains positive. The combination of improved productivity through 'lean' efforts, new component programs and a great acquisition all contributed to an outstanding performance for 2002. At Colonial Craft, we look forward to operating benefits resulting from consolidating two facilities into a single, more efficient operation during the first quarter 2003," continued Jean.

"For the quarter, Nichols Aluminum operating income was up some 135% from a year ago on a 6% increase in pounds shipped. A more favorable spread combined with excellent shop floor performance led to the sharply improved results. Nichols Aluminum Alabama increased its value-added painted sheet capacity by 17% on an annualized basis, and they benefited from this incremental investment during the quarter. Demand increased throughout the year, and along with the rationalization of industry capacity, allowed some pricing recovery," said Jean.

Other

As of November 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". Under SFAS 142, goodwill is no longer amortized, but is reviewed for impairment annually or more frequently if indicators arise.

The Company continues to account for stock options using the current transition provisions of SFAS No. 123. Accordingly, Quanex does not reflect the option expense in its income statement or diluted earnings per share. However, the Company does disclose the impact on net income and diluted earnings per share in the footnotes to its SEC financial statements. For the fourth quarter and fiscal year, expensing stock options would have reduced net income by about \$430,000 and \$1.4 million, respectively, and would have reduced diluted earnings per share by \$.03 and \$.09, respectively.

Relative to the Company's pension plans, assumptions were adjusted during fiscal 2002 to accurately reflect current conditions. Including these assumption changes and the amortization of actual investment losses, year over year, pension expense increased by approximately \$1 million pre-tax.

In addition, in the fourth quarter, the Company revised its third quarter estimate of interest expense associated with the conversion of the Company's 6.88% debentures by \$1.1 million (after-tax) which reduced basic, but not diluted, earnings per share in the fourth quarter by \$.07. There was no impact on basic and diluted earnings per share for the year.

The Board of Directors approved a program to repurchase shares of the Company's outstanding common stock. Under terms of the program, Quanex may purchase up to a total of one million shares (6%) of its common stock in the open market or in privately negotiated transactions. The Company indicated that it would be active in the buyback program during its first fiscal quarter 2003.

On November 26, the Company renewed its Revolving Credit Facility on favorable terms. The Facility makes available a \$200 million secured line of credit over a 3 year term.

Outlook

For 2003, Quanex is in a great position to outperform the markets it serves. The Company does expect its primary drivers to be down slightly for fiscal 2003 when compared to 2002 levels. However, it expects to more than offset any nominal market weakness with more value-added products at both MACSTEEL and Nichols Aluminum, price relief at MAC and new programs at Engineered Products. Market share gains at several business units will also bolster revenues. On the cost side, lean manufacturing initiatives are expected to contribute to margin improvement.

The Company's fiscal first quarter (November, December and January) is historically its least profitable as there are fewer production days due to the holidays, customers manage year-end inventories tightly and the winter months reduce building product sales. Because last year's strong inventory replenishment activity during the first quarter is not forecast to repeat, fiscal first quarter 2003 diluted earnings per share are expected to approximate this year's \$.39. Assuming a slowly recovering economy, the Company would expect to report sequentially better operating results compared to 2002 for the other quarters.

Dividend Declared

The Board of Directors declared a quarterly dividend of \$.16 per share on the Company's common stock, payable December 31, 2002 to shareholders of record on December 21, 2002.

Corporate Profile

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

Latest 12 Months Financial Information (excluding unusual charges and gains)

Sales: \$994.4 million; Operating income: \$83.3 million; Net income: \$55.5 million; Basic earnings per share: \$3.74; Quarterly common dividend rate (per share): \$.16; Book value per common share: \$25.67; \*Return on invested capital: 12.85%; Total debt to capitalization: 15.2%; Return on common equity: 16.25%; Actual number of common shares outstanding: 16,413,095; Common stock price range (52 week hi - low): \$44.20 - \$25.70.

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

Statements that use the words "expect," "should," "will," "might," or similar words reflecting future expectations or beliefs are forward-looking statements. The statements above are based on current expectations. Actual results or events may differ materially from this release. Factors that could impact future results may include, without limitation, the effect of both domestic and global economic conditions, the impact of competitive products and pricing, and the availability and cost of raw materials. For a more complete discussion of factors that may affect the Company's future performance, please refer to the Company's most recent 10-K filing (January 4, 2002) under the Securities Exchange Act of 1934, in particular the sections titled, "Private Securities Litigation Reform Act" contained therein.

For further information visit the Company website at [www.quanex.com](http://www.quanex.com) .

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

Three months ended			Twelve months ended	
October 31,			October 31,	
2002	2001		2002	2001
\$273,753	\$256,033	Net sales	\$994,387	\$924,353
221,067	208,703	Cost of sales	812,949	769,328
14,448	16,014	Selling, general and administrative expense	54,408	54,202
9,846	10,391	Depreciation and amortization	43,730	43,507
28,392	20,925	Operating income	83,300	57,316
(5,633)	(4,143)	Interest expense	(14,812)	(16,555)
---	571	Capitalized interest	1,879	1,666
---	---	Retired executive life insurance benefit	9,020	---
758	648	Other, net	2,227	3,195
23,517	18,001	Income before income taxes	81,614	45,622
(8,464)	(6,761)	Income tax expense	(26,132)	(16,428)
\$ 15,053	\$ 11,240	Net income	\$ 55,482	\$ 29,194
		Weighted average common shares outstanding:		
16,364	13,404	Basic	14,823	13,399
16,660	15,455	Diluted	16,237	15,426
		Earnings per common share:		
\$ 0.92	\$ 0.84	Basic net income per share	\$ 3.74	\$ 2.18
\$ 0.97	\$ 0.77	Diluted net income per share	\$ 3.52	\$ 2.07
\$ 0.16	\$ 0.16	Common stock dividends per share	\$ 0.64	\$ 0.64

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

Three months ended	Twelve months ended
October 31,	October 31,



---	---	Adjustment for retired executive life insurance benefit	(9,020)	---
9,880	10,456	Depreciation and amortization	43,987	43,910
(107)	6,731	Deferred income taxes	2,330	4,154
(3,124)	553	Deferred pension and postretirement benefits	(4,734)	(1,231)
21,702	28,980		88,967	75,454
(5,437)	(7,813)	Increase in accounts and notes receivable	(5,144)	(7,917)
2,473	8,314	(Increase) decrease in inventory	(5,249)	20,808
(4,535)	(458)	Decrease in accounts payable	(857)	(2,569)
(2,958)	2,437	Increase (decrease) in accrued expenses	(3,655)	(911)
4,331	(2,597)	Other, net (including income tax refund)	7,049	85
15,576	28,863	Cash provided by operating activities	81,111	84,950
		Investment activities:		
---	---	Acquisition of Colonial Craft, net of cash acquired	(17,283)	---
---	---	Acquisition of Temroc Metals, net of cash acquired	---	(17,922)
(6,171)	(12,577)	Capital expenditures, net of retirements	(34,271)	(55,575)
26,111	---	Retired executive life insurance proceeds	26,111	---
(3,222)	(74)	Cash used by other investment activities	(4,365)	(3,597)
16,718	(12,651)	Cash provided (used) by investment activities	(29,808)	(77,094)
		Financial activities:		
(16,000)	(17,000)	Bank borrowings (repayments), net	(75,000)	30,000
---	---	Repayment of borrowings against insurance policies	---	(17,273)
---	---	Prepayment of note payable	(7,029)	---
---	---	Redemption and purchase of subordinated debentures	(1,314)	(3,942)
---	(236)	Purchases of Quanex common stock	---	(2,226)
(2,625)	(2,152)	Common dividends paid	(9,637)	(8,621)
3,232	660	Issuance of common stock, net	33,948	2,473
42	284	Cash provided (used) by other financing activities	(3,561)	(1,103)
(15,351)	(18,444)	Cash used by financing activities	(62,593)	(692)
16,943	(2,232)	Increase (decrease) in cash	(11,290)	7,164
1,340	31,805	Beginning of period cash and equivalents	29,573	22,409
\$ 18,283	\$ 29,573	End of period cash and equivalents	\$ 18,283	\$ 29,573