



Quanex Announces Record Fiscal First Quarter 2003 Results

February 26, 2003

Reports Best Ever First Quarter Diluted Earnings per Share of \$.41 From Cont. Ops.

Net Income Up 24% Versus a Year Ago

Company Increases Cash Dividend By 6.25%

HOUSTON, Feb. 26 /PRNewswire-FirstCall/ -- Quanex Corporation (NYSE: NX) announced fiscal first quarter results for the period ending January 31, 2003. Net sales for the first quarter were \$229.5 million, 12% higher than a year ago. The Company commented that customer demand was strong at its major businesses, particularly at MACSTEEL and Nichols Aluminum, where both businesses experienced higher sales and operating earnings. Net income from continuing operations for Quanex was up 24% to \$6.8 million compared to last year's record first quarter. Diluted earnings per share were \$.41 from continuing operations, a best ever first quarter for the second consecutive year.

(Photo: <http://www.newscom.com/cgi-bin/prnh/19990517/NXLOGO>)

Net sales for the first quarter 2002 were \$204.2 million. Net income and diluted earnings per share for the first quarter 2002 were \$5.5 million and \$.39, respectively.

Highlights

Regarding the Company's results, Raymond A. Jean, chairman and chief executive officer stated, "In what is our most difficult quarter, we delivered solid results over last year's record setting pace. We did not have the benefit of inventory rebuilding as we experienced a year ago, but an improved mix, share gains, lower interest costs and some price relief got us there."

"New light vehicle programs, more value added products and reduced outside processing costs gave a boost to MACSTEEL's results within the Vehicular Products segment. Nichols Aluminum, whose results are reported in the Building Products segment, continued to benefit from strong housing starts and healthy remodeling activity. These excellent fundamentals, coupled with a reduction in industry capacity, led to increased spreads and higher volumes compared to a year ago. Quanex operating results also benefited from company- wide lean initiatives which continue to gain momentum. Having reported record first quarter earnings from continuing operations once again, Quanex has an excellent start to fiscal '03 and I remain optimistic about our future prospects," continued Jean.

"During the quarter, we purchased over 200,000 shares of our outstanding common stock. With our positive long term outlook for our businesses, look for us to continue buying back shares at today's compelling price," said Jean.

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

| | 1st qtr 2003 | 1st qtr 2002 |
|----------------------|--------------|--------------|
| Net Sales | \$229.5 | \$204.2 |
| Operating Cash Flow* | 22.1 | 21.0 |
| Operating Income | 10.1 | 9.8 |
| Net Income | 6.8 | 5.5 |
| EPS: Basic | \$.41 | \$.41 |
| EPS: Diluted | \$.41 | \$.39 |

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

Segment Commentary

VEHICULAR PRODUCTS (\$ in millions)

| | 1st qtr 2003 | 1st qtr 2002 |
|-------------------|--------------|--------------|
| Net sales: | \$108.9 | \$102.4 |
| Operating income: | 9.9 | 10.7 |

The Vehicular Products segment includes MACSTEEL, Piper Impact and Temroc Metals. The segment's main driver is North American light vehicle builds. For fiscal year 2003, the Company expects MACSTEEL's sales and operating income to represent about 80% and 95% of the segment's results, respectively.

"MACSTEEL had a great first quarter and they continue to outperform their market," continued Jean. "North American light vehicle builds did remain at high levels during the quarter. However, at MACSTEEL, share gains, new programs and industry rationalization have allowed them to operate at higher levels compared to a year ago. Currently, MACSTEEL's backlog is strong, up some 25% from a year ago. We continue to closely monitor scrap costs, as the business experienced a \$20 per ton increase in material costs compared to a year ago. However, we are anticipating excellent second quarter results from MACSTEEL as demand for our engineered bar products remains at high levels and we are now benefiting from a recently implemented price increase," Jean said.

"Phase VI, MACSTEEL's value-added MACPLUS capital program was completed late last year and we expect to have the project's remaining available capacity of some 20,000 annualized tons sold out by the end of the second quarter or early in the third."

"During the quarter, MACSTEEL launched its Phase VII capital project. This is a \$10 million project that will add about 20,000 annualized tons of bar making capacity to our two engineered bar facilities. Once the project is complete in mid-2004, MACSTEEL will have a total annualized shipping capacity of approximately 740,000 tons."

"Piper Impact continues to be negatively impacted from the sharp drop in demand for our aluminum airbag components. The business lost approximately \$1 million in the quarter. We've made recent, significant cutbacks in headcount in an attempt to better match resources to demand. Piper has lowered its breakeven considerably over the last 12 months and we do expect to report improved operating results at Piper for the second quarter, although positive operating income isn't expected until the second half of the year. Piper is working to achieve certifications on demanding vehicular applications, but OEM trials are lengthy," said Jean.

| BUILDING PRODUCTS | (\$ in millions) | |
|-------------------|------------------|--------------|
| | 1st qtr 2003 | 1st qtr 2002 |
| Net sales: | \$120.6 | \$101.8 |
| Operating income: | 4.2 | 2.4 |

The Building Products segment includes Engineered Products and Nichols Aluminum. The main drivers of the segment are residential housing starts and remodeling expenditures. For fiscal year 2003, the Company expects Engineered Products sales and operating income to represent about 35% and 60% of the segment's results, respectively.

"Engineered Products came through its seasonally slow first quarter in good shape, even though a somewhat harsher winter season did impact the group and new programs were slower to develop than anticipated. With order entry at a healthy level, we do expect better results in the second quarter," said Jean.

"Nichols Aluminum substantially improved its operating results from a year ago when they posted a moderate loss to reporting a modest gain for the first quarter 2003. Higher volumes, improved spreads, industry rationalization and further cost containment efforts were responsible for the turnaround. As with Engineered Products, Nichols first quarter is seasonally the slowest sales period. Currently we have a good backlog of business which bodes well for second quarter results," continued Jean.

Outlook

Demand in the Company's two target markets, vehicular products and building products, is encouraging and bolstered by OEM incentives and favorable interest rates. Business conditions are expected to remain strong, although they will moderate somewhat from last year's lofty levels. In Quanex's Vehicular Products segment, rising scrap prices continue to be a concern for MACSTEEL. Steel scrap prices are up some \$20 per ton compared to a year ago. Higher selling prices will help offset the scrap increase. New light vehicle builds for 2003 are expected to be some 15.8 -- 16 million units, down somewhat from 16.5 million units in 2002. Within the Building Products segment, rising scrap prices are again an issue at Nichols Aluminum. New housing starts for 2003 are expected to be down 5% from last year's very high level while remodeling expenditures are expected to be in line with 2002's strong showing.

However, for 2003, the Company will continue to benefit from: ongoing lean initiatives, more value added sales, new customer programs and less industry capacity. Because of these factors, the Company expects its second quarter diluted earnings per share to exceed the \$.70 reported a year ago by more than 10%. For the year, the Company also expects to exceed its reported \$2.96 diluted earnings per share in 2002 (excludes a \$.56 executive life insurance benefit) by more than 10%.

Other

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. Expensing stock options would have reduced net income by about \$357,000 and \$326,000 for the first quarter of 2003 and 2002 respectfully, and would have reduced diluted earnings per share by \$.02 for both periods.

In December, 2002, the Company's Board of Directors approved a program to purchase up to one million shares (6%) of its outstanding common stock. During its first fiscal quarter, the Company purchased 217,500 shares at an average price of about \$31.00.

The Company also announced that it had reached a new 5 year labor contract, effective February 1, 2003, with its United Steel Workers union at the Fort Smith MACSTEEL facility.

Dividend Declared

The Board of Directors increased the Company's quarterly cash dividend by \$.01 and declared \$.17 per share on the Company's common stock, payable March 31, 2003 to shareholders of record on March 14, 2003.

Corporate Profile

Quanex is an industry-leading manufacturer of engineered materials and components for vehicular products and building products markets.

Latest 12 Months Financial Information

Sales: \$1,019.7 million; Operating income: \$83.6 million; Net income: \$56.8 million; Basic earnings per share: \$3.66; Quarterly common dividend rate per share: \$.16; Book value per common share: \$25.89; Total debt to capitalization: 14.37%; Return on investment: 12.94%; Return on common equity: 17.31%; Actual number of common shares outstanding: 16,226,918; Common stock price range (52 week hi -- low): \$44.20 -- \$28.65.

Statements that use the words "expect," "should," "will," "might," or similar words reflecting future expectations or beliefs are forward-looking statements. The statements found above and below 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 (December 20, 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.

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

| | Three months ended January 31, | |
|--|-----------------------------------|-----------|
| | 2003 | 2002 |
| Net sales | \$229,509 | \$204,243 |
| Cost of sales | 194,525 | 171,042 |
| Selling, general and administrative expense | 12,855 | 12,164 |
| Depreciation and amortization | 12,014 | 11,193 |
| Operating income | 10,115 | 9,844 |
| Interest expense | (975) | (3,441) |
| Capitalized interest | -- | 730 |
| Other, net | 1,459 | 1,398 |
| Income before income taxes | 10,599 | 8,531 |
| Income tax expense | (3,816) | (3,071) |
| Net income | \$6,783 | \$5,460 |
| Weighted average common shares outstanding: | | |
| Basic (1) | 16,406 | 13,455 |
| Diluted (2) | 16,648 | 15,586 |
| Earnings per common share: | | |
| Basic | \$0.41 | \$0.41 |
| Diluted | \$0.41 | \$0.39 |
| Cash dividends per share | \$0.17 | \$0.16 |

Footnotes:

- (1) Basic average shares outstanding increased in fiscal 2003 compared to the prior year largely as a result of the 1.8 million shares issued in June of 2002 for the conversion of subordinated debentures, as well as the issuance of approximately 1.1 million shares for the exercise of stock options in the latter portion of fiscal 2002.
- (2) Diluted average shares outstanding increased in fiscal 2003 compared to the prior year largely as a result of the issuance of approximately 1.1 million shares for the exercise of stock options in the latter portion of fiscal 2002.

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

| Three months ended | | |
|----------------------|-----------|-----------|
| January 31, | | |
| | 2003 | 2002 |
| Vehicular Products: | | |
| Net sales | \$108,932 | \$102,433 |
| Operating income | \$9,887 | \$10,742 |
| Building Products: | | |
| Net sales | \$120,577 | \$101,810 |
| Operating income | \$4,167 | \$2,374 |
| Corporate and Other: | | |
| Intercompany sales | | |
| elimination | \$-- | \$-- |
| Corporate charges | \$(3,939) | \$(3,272) |
| Total: | | |
| Net sales | \$229,509 | \$204,243 |
| Operating income | \$10,115 | \$9,844 |

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

| January 31, | | October 31, | |
|--------------------------------------|-----------|----------------------------|---------------------|
| 2003 | 2002 | 2002 | 2001 |
| Assets | | | |
| \$5,425 | \$25,178 | Cash and equivalents | \$18,283 \$29,573 |
| 103,710 | 91,007 | Accounts and notes | |
| 100,797 | 85,560 | receivable, net | 116,122 109,706 |
| 12,600 | 15,381 | Inventories | 90,756 83,109 |
| 222,532 | 217,126 | Other current assets | 10,640 14,490 |
| | | Total current assets | 235,801 236,878 |
| 349,674 | 357,755 | Property, plant and | |
| 66,436 | 59,226 | equipment, net | 353,132 357,635 |
| 35,604 | 44,258 | Goodwill, net | 66,436 59,226 |
| \$674,246 | \$678,365 | Other assets | 33,771 43,892 |
| | | Total assets | \$689,140 \$697,631 |
| Liabilities and stockholders' equity | | | |
| \$79,219 | \$64,976 | Accounts payable | \$76,588 \$76,831 |
| 39,512 | 43,598 | Accrued expenses | 48,973 50,659 |
| 7,180 | 2,525 | Income taxes payable | 4,839 1,087 |
| 2,746 | 4,450 | Other current liabilities | 3,970 5,593 |
| 445 | 429 | Current portion of | |
| 129,102 | 115,978 | long-term debt | 434 420 |
| 70,051 | 214,344 | Total current liabilities | 134,804 134,590 |
| 2,176 | 6,389 | Long-term debt | 75,131 219,608 |
| 8,152 | 7,797 | Deferred pension credits | 4,960 7,962 |
| 30,464 | 30,702 | Deferred postretirement | |
| 14,196 | 16,718 | welfare benefits | 7,928 7,777 |
| 254,141 | 391,928 | Deferred income taxes | 29,210 29,282 |
| 420,105 | 286,437 | Other liabilities | 15,712 18,435 |
| | | Total liabilities | 267,745 417,654 |
| | | Total stockholders' equity | 421,395 279,977 |
| \$674,246 | \$678,365 | Total liabilities and | |
| | | stockholders' equity | \$689,140 \$697,631 |

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

Three months ended

| | January 31, | |
|--|-------------|----------|
| | 2003 | 2002 |
| Operating activities: | | |
| Net income | \$6,783 | \$5,460 |
| Depreciation and amortization | 12,107 | 11,279 |
| Deferred income taxes | 1,254 | 1,420 |
| Deferred pension and postretirement benefits | (2,560) | (1,553) |
| | 17,584 | 16,606 |
| Decrease in accounts and notes receivable | 12,412 | 18,699 |
| Increase in inventory | (10,041) | (2,451) |
| (Decrease)/Increase in accounts payable | 2,631 | (11,855) |
| Decrease in accrued expenses | (9,461) | (7,061) |
| Other, net (including income tax refund) | (1,135) | (1,470) |
| Cash provided by operating activities | 11,990 | 12,468 |
| Investment activities: | | |
| Capital expenditures, net of retirements | (8,520) | (11,290) |
| Cash used by other investment activities | (1,147) | (475) |
| Cash used by investment activities | (9,667) | (11,765) |
| Financing activities: | | |
| Bank borrowings (repayments), net | (5,000) | (5,000) |
| Purchases of Quanex common stock | (6,711) | - |
| Common dividends paid | (2,638) | (2,159) |
| Issuance of common stock, net | 810 | 2,360 |
| Cash used by other financing activities | (1,642) | (299) |
| Cash used by financing activities | (15,181) | (5,098) |
| Decrease in cash | (12,858) | (4,395) |
| Beginning of period cash and equivalents | 18,283 | 29,573 |
| End of period cash and equivalents | \$5,425 | \$25,178 |

SOURCE Quanex Corporation