



## Quanex 2004 Fiscal Fourth Quarter and Annual Results: Record Fourth Quarter & 2004 Net Sales & Income from Continuing Operations

December 2, 2004

HOUSTON, Dec. 2, 2004 (PRIMEZONE) -- Quanex Corporation (NYSE:NX) today reported record sales and net income from continuing operations for both its fiscal fourth quarter and year ended October 31, 2004. Diluted earnings per share from continuing operations for the quarter and year were \$1.17 and \$3.45, respectively, up 50% and 28%, respectively, over the year ago periods. Diluted earnings per share for the quarter and year were \$1.12 and \$3.26, respectively. Return on invested capital for 2004 was 9.26%.

### Highlights

- Demand was strong in both the Vehicular Products and Building Products segments during the quarter and the year ended with positive momentum going into fiscal 2005.
- Fourth quarter net sales were \$432.3 million, up 72% over the year ago quarter. Annual net sales were \$1.46 billion, a 63% increase over last year.
- Combined net sales from the Company's December 31, 2003, acquisitions of MACSTEEL Monroe and TruSeal Technologies were \$120.5 million for the fourth quarter and \$355.0 million for the year (10 months results).
- Income from continuing operations for the quarter was \$19.7 million, up 54% over the year ago quarter; for the year it was \$57.6 million, 31% higher than last year.
- MACSTEEL Monroe's and TruSeal Technologies' combined earnings contributed \$0.44 and \$1.02 (after interest expense), respectively, to diluted earnings per share for the quarter and year (10 months results), respectively.
- The LIFO charge for the fourth quarter was \$12.8 million, or \$0.47 per diluted share and for the year the charge was \$20.4 million, or \$0.75 per share. This compares to a LIFO charge in the fourth quarter last year of \$4.6 million, or \$0.18 per share and a charge of \$6.1 million, or \$0.24 per share, for last year.
- Operating cash flow for the year was \$124.0 million. Debt to total capitalization at year end was 21%, down from 29% at the end of the third quarter.

### Fourth Quarter and Fiscal Year Financials from Continuing Operations (\$ in millions, except per share data)

	4th qtr 2004	4th qtr 2003	inc/ (dcr)	FY 2004	FY 2003	inc/ (dcr)
	-----	-----	-----	-----	-----	-----
Net Sales	\$ 432.3	\$ 251.5	72%	\$1,460.3	\$ 898.2	63%
Operating Income	35.4	20.2	75%	99.4	65.6	52%
Income from Continuing Ops.	19.7	12.8	54%	57.6	44.0	31%
EPS: Basic						
Earnings from Continuing Ops.	\$ 1.19	\$ 0.80	49%	\$ 3.50	\$ 2.72	29%
EPS: Diluted						
Earnings from Continuing Ops.	1.17	0.78	50%	3.45	2.69	28%

## Segment Commentary

### VEHICULAR PRODUCTS (\$ in millions)

	4th qtr 2004	4th qtr 2003	FY 2004	FY 2003
	-----	-----	-----	-----
Net Sales	\$ 247.3	\$ 116.6	\$ 817.7	\$ 413.3
Operating Income	26.8	15.3	74.4	53.3

The Vehicular Products segment is focused on providing customers with value-added, engineered steel bar products and extrusions. Key market drivers are light vehicle builds and heavy duty truck production.

"North American light vehicle builds were down about 2% during our fourth quarter as compared to the year ago quarter. Demand from our heavy duty truck customers continued to strengthen, with overall production up some 38% over the fourth quarter last year. Our engineered steel bar operations once again ran at utilization rates near capacity," said Raymond A. Jean, chairman and chief executive officer. "Fourth quarter and fiscal year operating income for the segment benefited from new customer programs, conversion cost improvements and the December 31, 2003, acquisition of MACSTEEL Monroe," continued Jean.

"We expect light vehicle OEM build schedules in our first quarter to remain slightly below year ago levels, but with robust heavy truck demand, new programs and excellent strength in our secondary markets, which include farm, off-road, capital goods and defense, we expect to be operating near capacity throughout the first quarter," Jean said.

### BUILDING PRODUCTS (\$ in millions)

	4th qtr 2004	4th qtr 2003	FY 2004	FY 2003
	-----	-----	-----	-----
Net Sales	\$ 185.1	\$ 135.0	\$ 642.5	\$ 484.9
Operating Income	27.5	13.7	63.2	32.4

The Building Products segment is focused on providing window and door OEM customers with engineered products and components, and is a large producer of common alloy aluminum sheet. Key market drivers are residential building and remodeling markets.

"Housing starts and remodeling activity during our fourth quarter were at high levels, and order rates at our window and door components business units were excellent," continued Jean. "Additionally, our aluminum sheet business had an exceptionally strong fourth quarter. While shipments to our traditional building and construction customers remained excellent, sales to our capital equipment, service center, and transportation customers were significantly improved over last year. Also, a more favorable industry supply/demand equation bolstered our spread," said Jean.

"While winter weather can have a significant role on the first quarter performance of our Building Products segment, the business fundamentals are very favorable at this time," Jean said.

#### Working Capital

"During fiscal 2004, both our Vehicular Products and Building Products segments made outstanding progress in improving their respective working capital positions over the previous year. We measure our progress by the improvement in our conversion cycle, which is the sum of inventory days, plus trade receivable days, less days payable, all based on average daily sales. For the year, our conversion cycle improved to 36 days from 40, an excellent improvement given what happened to the cost of raw materials this year," said Jean.

#### Fiscal 2005 Outlook

Overall customer demand in the Company's two target markets, vehicular products and building products, is expected to remain strong in 2005.

Vehicular Products segment -- 2005 North American light vehicle builds are expected to be about 16 million units, essentially flat to 2004. Heavy duty truck builds for 2005 are forecasted to be up 15% to 20% over 2004 levels, while secondary markets are also expected to remain at high levels.

Building Products segment -- Key market drivers will remain healthy in 2005. Housing starts are expected to be off some 5% from 2004's record levels, while remodeling activity is expected to remain very strong.

Taken together, Quanex expects to post improved results in fiscal 2005 compared to fiscal 2004. This expectation is based on an improving economy, market share gains at both operating segments and the income gains from the acquisitions of MACSTEEL Monroe and TruSeal Technologies. Specifically, the Company expects first quarter diluted earnings per share from continuing operations to be in the range of \$1.00 to \$1.15, up from the \$0.40 it reported in the first quarter 2004. Quanex cautions that the combination of short cycle businesses and volatile raw material input costs does make forecasting problematic.

#### 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 in the fourth quarter and the fiscal year would have reduced net income by about \$0.4 million and \$2.0 million (after-tax), respectively, and would have reduced diluted earnings per share by \$0.02 and

\$0.12, respectively.

#### Dividend Declared

The Board of Directors declared the Company's quarterly cash dividend of \$.19 per share on the common stock, payable December 31, 2004 to shareholders of record December 17, 2004.

#### Corporate Profile

Quanex is a \$1.5 billion industry-leading manufacturer of value-added, engineered materials and components serving the Vehicular Products and Building Products markets.

#### Financial Statistics as of 10/31/04

Book value per common share: \$30.18; Total debt to capitalization: 20.73%; Return on invested capital: 9.26%; Return on common equity: 11.59%; Actual number of common shares outstanding: 16,592,723

#### Definitions

Book value per common share -- calculated as total stockholders' equity as of balance sheet date divided by actual number of common shares outstanding;

Total debt to capitalization -- calculated as the sum of both the current and long term portion of debt, as of balance sheet date, divided by the sum of both the current and long term portion of debt plus total stockholders' equity as of balance sheet date;

Return on invested capital -- calculated as the total of the prior 12 months net income plus prior 12 months after-tax interest expense and capitalized interest, the sum of which is divided by the trailing five quarters average total debt (current and long term) and total stockholders' equity;

Return on common equity -- calculated as the prior 12 months net income, divided by the trailing five quarters average common stockholders' equity.

Statements that use the words "expect," "should," "believe," "will," "might," or similar words reflecting future expectations or beliefs are forward-looking statements. The statements found 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 (December 29, 2003) 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's website at [www.quanex.com](http://www.quanex.com).

#### QUANEX CORPORATION

##### CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

Three months ended October 31,			Twelve months ended October 31,	
2004	2003		2004	2003
\$ 432,332	\$ 251,542	Net sales	\$1,460,268	\$ 898,197
365,497	210,247	Cost of sales	1,245,639	743,953
		Selling, general and administrative expense	65,618	48,029
19,460	12,072	Depreciation and amortization	50,054	40,985
12,014	9,003	Gain on sale of land	(454)	(405)
--	--			
35,361	20,220	Operating income	99,411	65,635
(1,558)	(485)	Interest expense	(6,049)	(2,829)
		Retired executive life insurance benefit	--	2,152
--	--	Other, net	282	2,695
(331)	263			
		Income from continuing operations before taxes	93,644	67,653
33,472	19,998	Income tax expense	(36,045)	(23,650)
(13,810)	(7,198)			

19,662	12,800	Income from continuing operations	57,599	44,003
		Gain (loss) from discontinued operations, net of taxes	(3,132)	(1,116)
(924)	316			
\$ 18,738	\$ 13,116	Net income	\$ 54,467	\$ 42,887
=====	=====		=====	=====
		Basic earnings per common share:		
		Earnings from continuing operations	\$ 3.50	\$ 2.72
\$ 1.19	\$ 0.80	Gain (loss) from discontinued operations	\$ (0.19)	\$ (0.07)
\$ (0.06)	\$ 0.03			
		Basic earnings per share	\$ 3.31	\$ 2.65
		Diluted earnings per common share:		
		Earnings from continuing operations	\$ 3.45	\$ 2.69
\$ 1.17	\$ 0.78	Gain (loss) from discontinued operations	\$ (0.19)	\$ (0.07)
\$ (0.06)	\$ 0.02			
		Diluted earnings per share	\$ 3.26	\$ 2.62
		Weighted average common shares outstanding:		
16,539	16,088	Basic	16,436	16,154
16,791	16,337	Diluted	16,698	16,384
		Cash dividends per share	\$ 0.72	\$ 0.68
\$ 0.19	\$ 0.17			

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

Three months ended October 31,		Twelve months ended October 31,	
2004	2003	2004	2003
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		Net sales:	
\$ 247,256	\$ 116,574	Vehicular Products	\$ 817,740
185,076	134,968	Building Products	\$ 413,293
			642,528
			484,904
\$ 432,332	\$ 251,542	Net sales	\$1,460,268
			\$ 898,197
		Operating income:	
\$ 26,847	\$ 15,259	Vehicular Products	\$ 74,377
27,457	13,715	Building Products	\$ 53,302
(18,943)	(8,754)	Corporate and Other	63,175
			32,394
			(20,061)
\$ 35,361	\$ 20,220	Operating Income	\$ 99,411
			\$ 65,635
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QUANEX CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(In thousands)  
(Unaudited)

	October 31,	
	2004	2003
<b>Assets</b>		
Cash and equivalents	\$ 41,743	\$ 22,108
Accounts and notes receivable, net	176,358	104,009
Inventories	115,367	68,626
Deferred income taxes	10,744	5,320
Other current assets	2,363	1,499
Current assets of discontinued operations	9,759	31,886
Total current assets	356,334	233,448
Property, plant and equipment	842,147	742,602
Less accumulated depreciation	(491,165)	(443,869)
Property, plant and equipment, net	350,982	298,733
Goodwill, net	134,670	66,436
Cash surrender value insurance policies, net	24,439	24,536
Intangibles, net	27,556	2,755
Other assets	9,391	3,517
Long-term assets of discontinued operations	26,150	53,689
Total assets	\$ 929,522	\$ 683,114
<b>Liabilities and stockholders' equity</b>		
Accounts payable	\$ 161,674	\$ 80,791
Accrued liabilities	45,844	33,764
Income taxes payable	4,127	7,641
Current maturities of long-term debt	456	3,877
Current liabilities of discontinued operations	4,102	14,592
Total current liabilities	216,203	140,665
Long-term debt	130,496	15,893
Deferred pension credits	8,804	7,781
Deferred postretirement welfare benefits	7,745	7,845
Deferred income taxes	53,983	49,938
Non-current environmental reserves	8,188	13,517
Other liabilities	2,973	283
Long-term liabilities of discontinued operations	423	2,033
Total liabilities	428,815	237,955
Total stockholders' equity	500,707	445,159
Total liabilities and stockholders' equity	\$ 929,522	\$ 683,114

QUANEX CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOW

(In thousands)  
(Unaudited)

	Twelve months ended October 31,	
	2004	2003
Operating activities:		
Net income	\$ 54,467	\$ 42,887
Loss from discontinued operations	3,132	1,116
Net income from continuing operations		
Adjustments to reconcile net income to cash provided by operating activities:		
Gain on sale of land	(454)	(405)
Retired executive life insurance benefit	--	(2,152)
Depreciation and amortization	50,603	41,334
Deferred income taxes	551	3,477
Deferred pension and postretirement benefits	(499)	1,522
	107,800	87,779
Changes in assets and liabilities, net of effects from acquisitions and dispositions:		
Increase in accounts and notes receivable	(46,776)	(6,514)
Decrease (Increase) in inventory	(6,993)	9,058
Increase in accounts payable	57,623	10,733
Increase (Decrease) in accrued liabilities	8,764	(7,869)
Increase (Decrease) in income taxes payable	(6,242)	1,081
Other, net	1,965	(5,441)
Operating cash flow from discontinued operations	8,096	14,013
Cash provided by operating activities	124,237	102,840
Investment activities:		
Acquisitions, net of cash acquired	(214,618)	--
Proceeds from sale of land	637	2,832
Proceeds from sale of discontinued operations	23,310	--
Capital expenditures, net of retirements	(19,542)	(25,371)
Retired executive life insurance proceeds	--	6,442
Other, net	172	(2,952)
Cash used for investment activities from discontinued operations	(3,049)	(3,451)
Cash used for investment activities	(213,090)	(22,500)
Financing activities:		
Bank borrowings (repayments), net	(10,000)	(55,000)
Issuance of debentures	125,000	--
Purchases of Quanex common stock	--	(13,515)
Common dividends paid	(11,530)	(10,865)
Issuance of common stock, net	11,665	5,163
Other, net	(6,657)	(2,298)
Cash used for financing activities from discontinued operations	--	--
Cash used for financing activities	108,478	(76,515)
Effect of exchange rate changes on cash and equivalents	10	--
Increase in cash	19,635	3,825
Beginning of period cash and equivalents	22,108	18,283

End of period cash and equivalents	\$ 41,743	\$ 22,108
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The Quanex Corporation logo is available at: <http://www.primezone.com/newsroom/prs/?pkgid=1117>

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