



## Quanex Fiscal Second Quarter 2005 Results

May 26, 2005

Record Net Sales & Income from Continuing Operations  
Record Diluted Earnings per Share from Continuing Operations  
Best Ever First Half Cash Provided by Operations - \$73 million  
FY2005 EPS Guidance Raised to \$5.75 - \$6.00 from \$5.00 - \$5.40

HOUSTON, May 26, 2005 (PRIMEZONE) -- Quanex Corporation (NYSE:NX) today reported record net sales and income from continuing operations for its fiscal second quarter. Diluted earnings per share from continuing operations of \$1.95 set a new quarterly record and increased fourfold from the year ago quarter of \$0.43. Diluted earnings per share were \$1.93. The Company's return on invested capital was 16.5% compared to 8.3% in the year ago period.

### Quarterly Highlights

- Record second quarter net sales were \$533.8 million, up 43% over the year ago quarter.
- Net sales from the Company's December 9, 2004, acquisition of Mikron Industries were up 21% from their year ago quarter.
- Record income from continuing operations for the quarter was \$51.4 million compared to \$10.8 million in the year ago quarter.
- Mikron Industries second quarter earnings were accretive by \$0.06 per share (after interest expense).
- Cash provided by operating activities for six months ended April was \$72.2 million compared to \$5.3 million in the year ago period.
- Since the Company's purchase of Mikron, bank revolver debt has been reduced by \$90 million; total debt to capitalization at quarter end was 29.9%; cash and equivalents were \$16.8 million.
- On March 21, 2005, the Company completed the acquisition of Besten Inc., a small manufacturer of assembly and glazing equipment used extensively in the insulating glass window industry.
- The Company approved a \$38 million capital project (Phase 9) at MACSTEEL to be implemented over the next 18 months that will produce value added products, such as MACPLUS turned and polished bars, on world-class equipment at MACSTEEL-Monroe.

### Selected Quarterly Financial Information

	2nd qtr 2005	2nd qtr 2004	inc/(dcr)
	-----	-----	-----
Net Sales	\$533.8	\$372.9	43%
Operating Income	86.0	18.5	364%
Income from Continuing Ops.	51.4	10.8	377%
EPS: Basic Earnings from Continuing Ops.	\$2.04	\$0.44	364%
EPS: Diluted Earnings from Continuing Ops.	1.95	0.43	353%

### Segment Commentary

#### Vehicular Products

	2nd qtr 2005	2nd qtr 2004	inc/(dcr)
	-----	-----	-----
Net Sales	\$289.4	\$213.5	36%
Operating Income	61.0	13.0	370%

The Vehicular Products segment is focused on providing customers with value-added, engineered steel bar and extrusion products. Key market drivers are light

vehicle and heavy duty truck builds.

"North American light vehicle builds were down about 5% in our second quarter compared to the year ago quarter, with domestic "Big 3" builds down about 12%, partially offset by a 12% increase in light vehicle builds by the New American Manufacturers (NAMs). Demand from heavy duty truck customers continued to grow, with overall production up some 45% over our second quarter last year. Actual shipments were off from the year ago period because orders were set-back by customers as they adjusted inventories consistent with the reduction in light vehicle build rates initiated by some of the domestic automotive companies," said Raymond A. Jean, chairman and chief executive officer. "Segment operating income compared to the year ago quarter benefited from new customer programs, cost improvements, higher selling prices, and falling scrap costs. MACSTEEL-Monroe had a great quarter as the business continues to improve its product mix and operating efficiency compared to earlier periods," continued Jean.

#### Building Products

	2nd qtr 2005	2nd qtr 2004	inc/(dcr)
	-----	-----	-----
Net Sales	\$244.3	\$159.4	53%
Operating Income	31.3	11.4	175%

The Building Products segment is focused on providing window and door OEM customers with engineered products and components, and is also a leading provider of common alloy aluminum sheet. Key market drivers are housing starts and remodeling activity.

"The housing outlook remained quite positive during our second quarter, although demand was adversely impacted by severe weather in many regions of the country. Our wood window components business units were particularly hard hit," Jean said. "Offsetting the seasonal factors, our aluminum sheet business had an exceptionally strong quarter. Shipments to our traditional building and construction customers remained steady, while sales to our capital equipment, service center, and transportation customers were more robust than year ago levels. Overall market dynamics allowed for higher selling prices compared to both the previous and year ago quarters and aluminum scrap remained plentiful and reasonably priced. Also, we're very pleased with the progress we are seeing at Mikron. The growth of new programs is helping them outgrow their served market, and with lean practices taking on more emphasis, we expect them to continue to improve their returns," said Jean.

#### Working Capital

"In fiscal 2004, our Vehicular Products and Building Products segments made outstanding progress in improving their respective working capital positions and the trend continued this quarter. Progress is measured by the improvement in our conversion cycle, which is the sum of inventory days, plus trade receivable days, less payable days, all based on average daily sales. For the quarter, our conversion cycle improved to 42 days compared to 47 days in the year ago quarter," said Jean.

#### Fiscal 2005 Outlook

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

Vehicular Products segment - Light vehicle build rates for the third fiscal quarter are expected to remain in line with last year, although production cuts by the domestic "Big 3" producers, a major customer group of the segment, will reduce demand from a year ago. However, we do expect new programs, ongoing very strong heavy duty truck builds and the strength in secondary markets including farm and construction equipment, capital goods and defense to keep the segment at respectable operating rates through the quarter.

Building Products segment - The drivers within the segment remain positive, supported by still favorable interest rates and an improving job outlook. The segment will also benefit from very strong organic growth, a more balanced supply/demand aluminum marketplace and the Mikron acquisition.

Taken together, Quanex expects to report record fiscal 2005 diluted earnings per share from continuing operations in the range of \$5.75 to \$6.00, a significant improvement over fiscal 2004's \$2.30. For the third quarter, the Company expects diluted earnings per share from continuing operations to be in the range of \$1.35 to \$1.45, up from the \$0.82 reported in its third quarter 2004. The Company cautions that its combination of short cycle businesses and volatile raw material costs, particularly for steel scrap, makes 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 second quarter would have reduced net income by about \$0.5 million, and would have reduced diluted earnings per share by \$0.02. Quanex expects to begin expensing stock options in its fiscal 2006 first quarter.

On January 26, 2005, the Company irrevocably elected, pursuant to the indenture governing its 2.50% convertible senior debentures due 2034, to settle the principal amount of the debentures in cash when they become convertible and are surrendered by the holders thereof. Allowing for this election and using an average stock price of \$54.35 for its second fiscal quarter, the Company's diluted earnings per share were reduced by \$0.05. The Company estimates that for each \$3.00 increase in its stock price above the debenture's conversion price of approximately \$38.30, diluted earnings per share will be reduced by about \$0.01 per quarter. On May 2, 2005, the Company announced that its debentures were convertible by holders in accordance with the terms of the indenture.

#### Dividend Declared

The Board of Directors declared the Company's quarterly cash dividend of \$0.135 per share on the common stock, payable June 30, 2005, to shareholders of record on June 17, 2005.

#### Corporate Profile

Quanex Corporation, with expected 2005 sales of \$2 billion, is an industry-leading manufacturer of value-added, engineered materials and components serving the vehicular products and building products markets.

#### Financial Statistics as of 04/30/05

Book value per common share: \$23.10; Total debt to capitalization: 29.86%; Return on invested capital: 16.53%; Return on common equity: 22.59%; Actual number of common shares outstanding: 25,228,278

#### Definitions

Book value per common share  $\hat{A}$ — calculated as total stockholders' equity as of balance sheet date divided by actual number of common shares outstanding;

Total debt to capitalization  $\hat{A}$ — 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  $\hat{A}$ — 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  $\hat{A}$ — 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 21, 2004) under the Securities Exchange Act of 1934, in particular the sections titled, "Private Securities Litigation Reform Act" contained therein.

For additional information, visit the Company's website at [www.quanex.com](http://www.quanex.com).

The Quanex Corporation logo is available at: <http://www.primezone.com/newsroom/prs/?pkgid=1117>

# QUANEX CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

Three months ended April 30,			Six months ended April 30,	
2005	2004		2005	2004
\$533,758	\$372,912	Net sales	\$1,003,941	\$ 624,919
406,158	324,691	Cost of sales	778,960	542,505
24,588	16,411	Selling, general and administrative expense	47,736	28,424
17,008	13,275	Depreciation and amortization	32,127	24,862
--	--	Gain on sale of land	--	(454)
86,004	18,535	Operating income	145,118	29,582
(2,971)	(1,831)	Interest expense	(5,350)	(2,756)
581	382	Other, net	(1,339)	822
83,614	17,086	Income from continuing operations before taxes	138,429	27,648
(32,191)	(6,298)	Income tax expense	(53,295)	(10,213)
51,423	10,788	Income from continuing operations	85,134	17,435
(438)	756	Gain (loss) from discontinued operations, net of taxes	(5,914)	536
\$ 50,985	\$ 11,544	Net income	\$ 79,220	\$ 17,971

Basic earnings per  
common share:

\$ 2.04	\$ 0.44	Earnings from continuing operations	\$ 3.40	\$ 0.71
\$ (0.02)	\$ 0.03	Gain (loss) from discontinued operations	\$ (0.24)	\$ 0.02
\$ 2.02	\$ 0.47	Basic earnings per share	\$ 3.16	\$ 0.73

Diluted earnings per  
common share:

Earnings from continuing

\$ 1.95	\$ 0.43	operations	\$ 3.29	\$ 0.70
\$ (0.02)	\$ 0.03	Gain (loss) from discontinued operations	\$ (0.23)	\$ 0.02
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\$ 1.93	\$ 0.46	Diluted earnings per share	\$ 3.06	\$ 0.72
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		Weighted average common shares outstanding:		
25,178	24,635	Basic	25,080	24,555
26,624	25,035	Diluted	26,235	24,959
\$ 0.1350	\$ 0.1133	Cash dividends per share	\$ 0.2700	\$ 0.2267

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

Three months ended April 30,			Six months ended April 30,	
2005	2004	Net sales:	2005	2004
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\$ 289,441	\$ 213,482	Vehicular Products	\$ 564,017	\$ 344,528
244,317	159,430	Building Products	439,924	280,391
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\$ 533,758	\$ 372,912	Net sales	\$1,003,941	\$ 624,919
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		Operating income:		
\$ 61,004	\$ 12,986	Vehicular Products	\$ 105,223	\$ 22,578
31,321	11,352	Building Products	53,464	16,312
		Corporate and Other Operating		
(6,321)	(5,803)	Income	(13,569)	(9,308)
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\$ 86,004	\$ 18,535		\$ 145,118	\$ 29,582
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QUANEX CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(In thousands)  
(Unaudited)

April 30,			October 31,	
2005	2004		2004	2003
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		Assets		
\$ 16,830	\$ 5,290	Cash and equivalents	\$ 41,743	\$ 22,108
		Accounts and notes receivable,		
211,332	177,205	net	176,358	104,009
139,280	126,844	Inventories	115,367	68,626
		Deferred income taxes	10,744	5,320
11,742	8,487	Other current assets	2,363	1,499
4,223	4,147	Current assets of discontinued operations		
280	32,604		9,759	31,886
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		Total current		

383,687	354,577	assets	356,334	233,448
950,285	830,446	Property, plant and equipment	842,147	742,602
(519,547)	(467,350)	Less accumulated depreciation	(491,165)	(443,869)
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430,738	363,096	Property, plant and equipment, net	350,982	298,733
198,957	137,756	Goodwill, net	134,670	66,436
		Cash surrender value insurance policies, net	24,439	24,536
23,896	24,991	Intangibles, net	27,556	2,755
85,898	28,718	Other assets	9,391	3,517
9,256	5,993	Long-term assets of discontinued operations		
2,678	52,370		26,150	53,689
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\$1,135,110	\$ 967,501	Total assets	\$ 929,522	\$ 683,114
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		Liabilities and stockholders' equity		
\$ 152,843	\$ 134,118	Accounts payable	\$ 161,674	\$ 80,791
65,545	41,814	Accrued liabilities	45,844	33,764
10,314	5,752	Income taxes payable	4,127	7,641
		Current maturities of long-term debt	456	3,877
493	3,751	Current liabilities of discontinued operations		
379	14,418		4,102	14,592
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229,574	199,853	Total current liabilities	216,203	140,665
247,607	215,817	Long-term debt	130,496	15,893
		Deferred pension credits	8,804	7,781
7,977	2,018	Deferred postretirement welfare benefits	7,745	7,845
7,597	7,782	Deferred income taxes	53,983	49,938
47,030	59,401	Non-current environmental reserves	8,188	13,517
9,019	13,351	Other liabilities	2,973	283
2,989	2,587	Long-term liabilities of discontinued operations		
423	1,772		423	2,033
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552,216	502,581	Total liabilities	428,815	237,955
582,894	464,920	Total stockholders' equity	500,707	445,159
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\$1,135,110	\$ 967,501	Total liabilities and stockholders' equity	\$ 929,522	\$ 683,114
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QUANEX CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOW

(In thousands)  
(Unaudited)

	Six months ended April 30,	
	2005	2004
Operating activities:		
Net income	\$ 79,220	\$ 17,971
Loss from discontinued operations	5,914	(536)
Net income from continuing operations		
Adjustments to reconcile net income to cash provided by operating activities:		
Gain on sale of land	--	(454)
Depreciation and amortization	32,427	25,115
Deferred income taxes	(6,704)	4,560
Deferred pension and postretirement benefits	(975)	(5,826)
	109,882	40,830
Changes in assets and liabilities, net of effects from acquisitions and dispositions:		
Decrease (Increase) in accounts and notes receivable	(23,303)	(50,160)
Decrease (Increase) in inventory	(12,613)	(18,536)
Increase (Decrease) in accounts payable	(22,299)	31,406
Increase (Decrease) in accrued liabilities	2,371	1,999
Increase (Decrease) in income taxes payable	21,096	(2,040)
Other, net	(113)	161
Operating cash flow from discontinued operations	(2,129)	1,688
Cash provided by operating activities	72,892	5,348
Investment activities:		
Acquisitions, net of cash acquired	(200,009)	(214,573)
Proceeds from sale of land	--	637
Proceeds from sale of discontinued operations	11,592	--
Capital expenditures, net of retirements	(22,069)	(7,673)
Other, net	(136)	(535)
Cash used for investment activities from discontinued operations	(179)	(615)
Cash used for investment activities	(210,801)	(222,759)
Financing activities:		
Bank borrowings (repayments), net	109,973	200,000
Common dividends paid	(6,870)	(5,591)
Issuance of common stock, net	9,623	7,223
Other, net	258	(1,064)

Cash provided by financing activities	112,984	200,568
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Effect of exchange rate changes on cash and equivalents	12	25
Decrease in cash	(24,913)	(16,818)
Beginning of period cash and equivalents	41,743	22,108
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End of period cash and equivalents	\$ 16,830	\$ 5,290
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