



## Investor Presentation

June 2018

# 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:** 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) is a 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, gain/loss on the sale of fixed assets related to restructuring, one-time employee benefit adjustments and restructuring charges. Divisional EBITDA is EBITDA excluding discontinued operations, corporate costs and ERP related expenses. Free Cash Flow is a non-GAAP measure calculated using cash provided by operating activities less capital expenditures. The Company believes these non-GAAP measures provide a consistent basis for comparison between periods, and will assist investors in understanding Quanex’s financial performance when comparing our results to other investment opportunities. While the Company considers EBITDA, Adjusted EBITDA, Divisional 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 EBITDA, Adjusted EBITDA and Divisional 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. Quanex 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.

# Quanex: A Compelling Investment Opportunity

## EXECUTING ON STRATEGIC PRIORITIES TO DRIVE SHAREHOLDER VALUE CREATION

- ✓ Achieving organic growth with profitable customers/products with opportunity to drive above market growth in key categories
- ✓ Delivering sustainable free cash flow and margin expansion
- ✓ Successfully implemented new pricing strategy to weather inflationary cycle
- ✓ Reducing leverage and further strengthening capital structure – providing for balanced capital allocation strategy

# 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 FINANCIALS

- FY 2017 Net Sales: \$857.1 Million <sup>(1)</sup>
- Leverage Ratio as of 4.30.18 <sup>(2)</sup>: 2.2x

### CORPORATE HEADQUARTERS

Houston, Texas

### EMPLOYEES

~4,000

### EXPERIENCED MANAGEMENT TEAM:

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

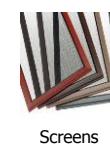
(1) Adjusted for the sale of Owens Flooring effective 10.31.17.  
(2) Leverage Ratio is defined as net debt/LTM Adjusted EBITDA.

### ~55% NA ENGINEERED COMPONENTS

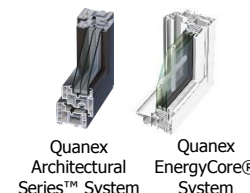
#### IG SPACERS



#### SCREENS & OTHER



#### VINYL PROFILES



### ~30% NA CABINET COMPONENTS



### ~15% EU ENGINEERED COMPONENTS

#### VINYL PROFILES



#### IG SPACERS



# Geographic Footprint

## FACILITIES STRATEGICALLY LOCATED TO BETTER SERVE CUSTOMERS

31

U.S.

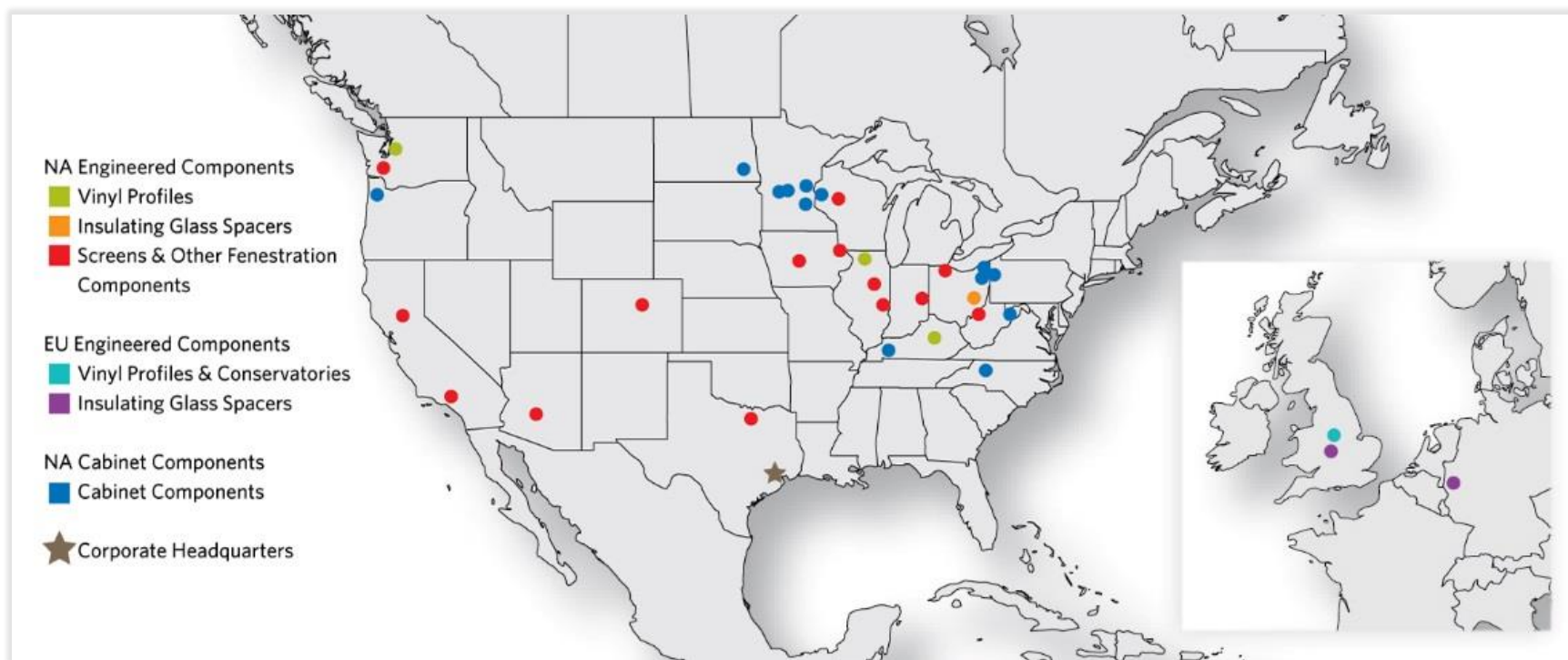
2

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
- Quanex maintains minimal levels of finished goods inventories at most locations as products are typically made to order for just-in-time (JIT) delivery



# Solid Track Record of Performance

## SIGNIFICANT IMPROVEMENT IN PROFITABILITY OVER THE LAST 5 YEARS

- In 2013, began a transformation into a “pure play” supplier of components to OEMs
- Implemented portfolio rationalization, acquisitions, divestitures and extensive operational improvements

|                                   | FISCAL 2013 <sup>(1)</sup> | FISCAL 2017    |
|-----------------------------------|----------------------------|----------------|
| Adj. EBITDA Margin <sup>(2)</sup> | 4.6%                       | 11.4%          |
| Diluted EPS                       | (\$0.34)                   | \$0.54         |
| Free Cash Flow <sup>(3)</sup>     | \$5.6 million              | \$44.0 million |

**2013: Quanex was not profitable and ~50% of revenue was driven by sales to OEMs**

**2018: Quanex is profitable, almost all sales to OEMs and 8x increase in FCF**

(1) Bill Griffiths appointed Chairman, President and CEO in July 2013; fiscal 2013 financials include Nichols Aluminum, which was divested in fiscal 2014.

(2) EBITDA adjusted to exclude 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.

# Q2 2018 Earnings & 2018 Guidance

## Q2 2018 Earnings Highlights

- **Strong underlying growth in NA and EU Engineered Components Segments**
  - NA & EU Engineered Components Segments: Sales growth of ~9% in Q2
- **Price increases implemented in response to inflationary pressures, full benefit expected in Q4 2018**
- **Generated solid free cash flow, further improving leverage ratio**
  - Generated free cash flow of \$6 million in Q2...+42% Y/Y
  - On track to end fiscal 2018 with leverage ratio of less than 2x

## Reaffirmed 2018 Guidance

**\$890-\$900M**  
**Net Sales**

*Topline Growth ~4.5% Y/Y to the Midpoint of Guidance <sup>(1)</sup>*

**\$103 - \$108M**  
**Adjusted EBITDA**

*Margin Expansion ~40bps Y/Y to the Midpoint of Guidance*

**~\$35M**  
**Capex**

**~9%**  
**Tax Rate <sup>(2)</sup>**

*\$6.5 Million Net Tax Benefit in 1Q18 Associated w/ Enactment of Tax Cuts and Jobs Act – Tax Rate ~24% w/o Net Tax Benefit*

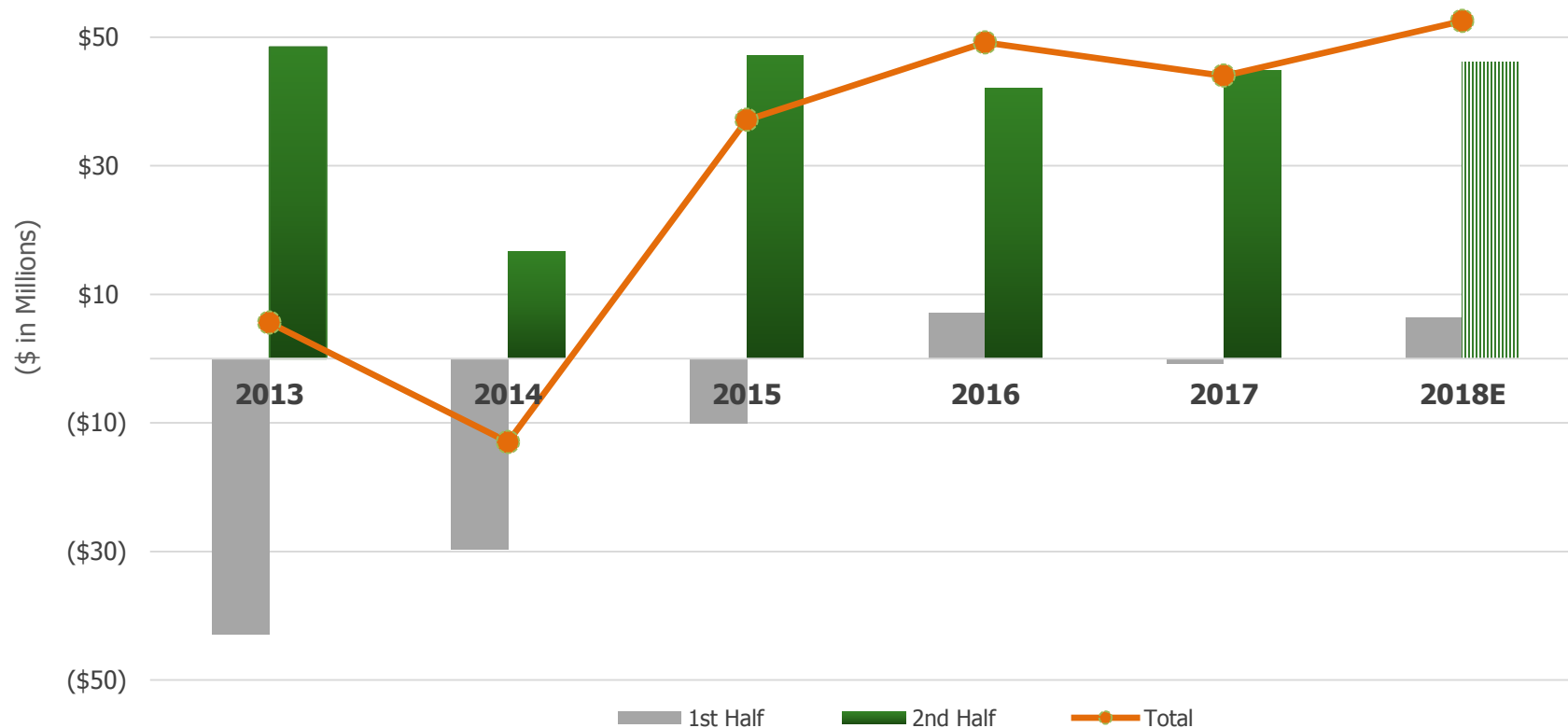
(1) Y/Y net sales growth calculated after adjusting for the sale of Owens Flooring effective 10.31.17.

(2) Recent enactment of Tax Cuts and Jobs Act resulted in a net tax benefit of \$6.5 million in 1Q18, which reduces the Company's effective tax rate to ~9%, or ~24% excluding the net tax benefit, for fiscal 2018.

# Favorable Free Cash Flow Trend – 2H Weighted

## IMPROVING FREE CASH FLOW PROFILE IS TOP PRIORITY

FREE CASH FLOW HISTORY & FORECAST <sup>(1)</sup>



(1) Free cash flow defined as cash provided by operations less capital expenditures.



# Solid Balance Sheet with Flexible Capital Structure

FOCUSED ON DELEVERAGING TO ACHIEVE LEVERAGE RATIO BELOW 2.0x BY YEAR-END 2018

| Capitalization (\$ in thousands)                                 | NX<br>4.30.18    |  |
|--|------------------|--|
| Cash & Cash Equivalents  | \$10,098         |  |
| Senior Secured Term Loan A Facility due 2021                     | 131,250          |  |
| Senior Secured Revolving Credit Facility due 2021 <sup>(1)</sup> | 79,000           | Current Interest Rate:<br>LIBOR + 200bps           |
| Capital Leases and Other   | 18,584           |  |
| <b>Total Debt</b>  | <b>\$228,834</b> |  |
| <i>Net Debt</i>  | <i>\$218,736</i> |  |
| Stockholders' Equity   | 420,326          |  |
| <b>Total Capitalization</b>                                      | <b>\$649,160</b> |  |
| Borrowing Base   | 300,000          |  |
| Less: Borrowings Against Revolving Credit Facility               | 79,000           | Ample Capacity<br>on Revolver                      |
| Plus: Cash   | 10,098           |  |
| <b>Total Liquidity</b>   | <b>\$231,098</b> |  |
| <b>Net Debt/LTM Adj. EBITDA <sup>(2)</sup></b>                   | <b>2.2x</b>      | Expect Leverage<br>Ratio <2.0x by<br>Year-End 2018 |

(1) Excludes \$5.3 million in outstanding letters of credit.

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

# Clear Roadmap to Margin Expansion

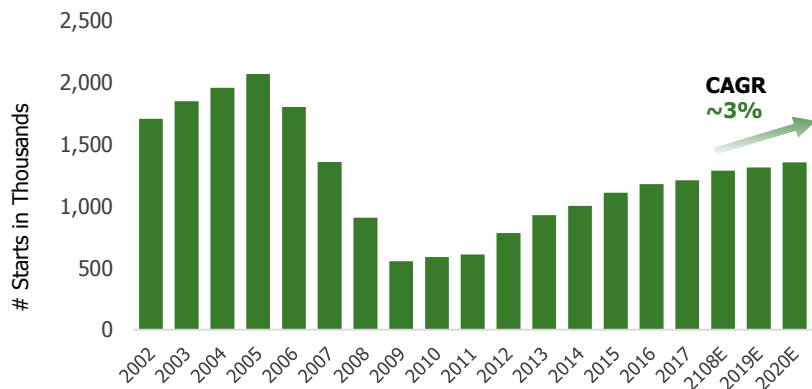
## WOODCRAFT INDUSTRIES: NA CABINET COMPONENTS SEGMENT



# Compelling End Market Dynamics

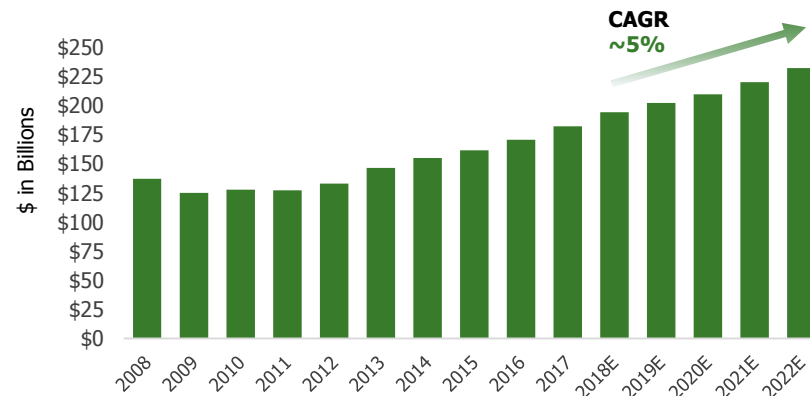
## EXPECT MID-SINGLE DIGIT MARKET GROWTH FOR FORESEEABLE FUTURE

### U.S. HOUSING STARTS



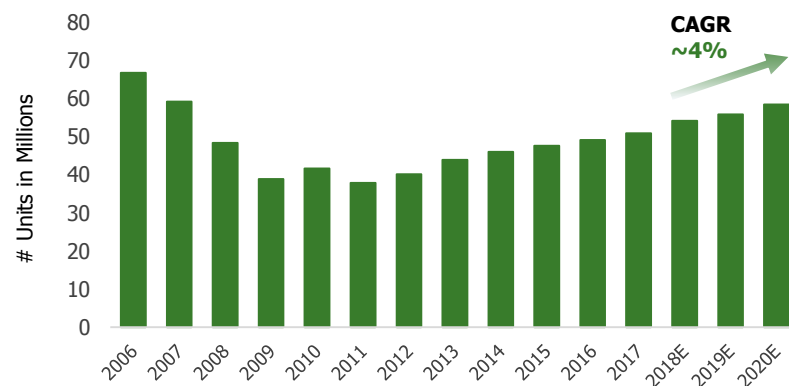
Source: NAHB - Jun 2018

### U.S. R&D SPENDING



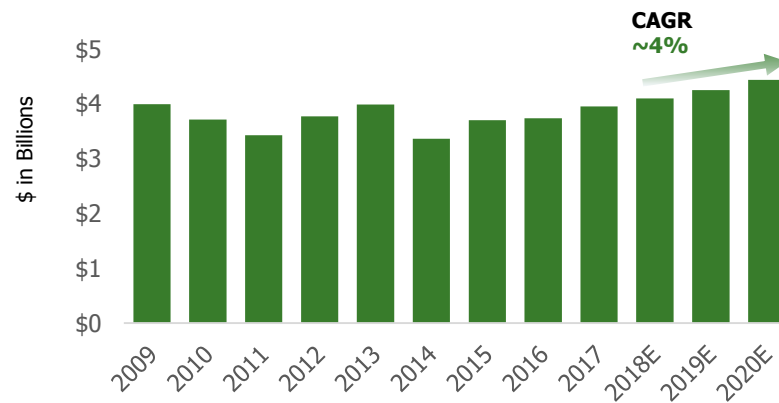
Source: Metrostudy (a Hanley-Wood company) - Jun 2018

### U.S. WINDOW SHIPMENTS



Source: Ducker Worldwide - May 2018

### U.S. KITCHEN CABINET MARKET



Source: Catalina- Jun 2018

# Executing on Strategic Priorities to Drive & Unlock Value

## Drive Continued Free Cash Flow & ROIC Improvement

- Margin expansion via operational efficiency improvements
- Accelerate productivity improvements and automation implementation
- Maintain tight control on working capital management and capex spend
- Reduce future cash interest expense by paying down debt further
- Continue to focus on employee safety and retention

## Top Line Growth

- Market growth of ~4-5% per year
- Potential for above market growth:
  - OEMs increase outsourcing due to labor, capacity and capital constraints
  - High-speed IG lines

**Quanex is successfully executing plans to drive sustainable growth and value creation**

# APPENDIX

# Executive Compensation

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

- 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 (~52% of TDC)

## 2018 Annual Incentive Award

- 100% weighting on Modified Free Cash Flow (EBITDA + Net Change in AR/Inv/AP – Capex)

## Long-Term Incentive (~75% performance based - shareholder alignment)

- Performance Shares: 50% weighting (3-year performance period)
  - 50% based on EPS growth
  - 50% based on Relative Total Shareholder Return (RTSR)
  - Return on Invested Capital (ROIC) improvement modifier added in 2017 to encourage good capital deployment
  - Payout 50% cash/50% common stock
- Performance Restricted Stock Units: 25% weighting (3-year performance period)
  - Final payout based on Absolute Total Shareholder Return (ATSR)
  - Payout 100% common stock
- Restricted Stock: 25% 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)     |
| <b>Free Cash Flow</b>                 | <b>(\$41,840)</b> | <b>(\$1,039)</b> | <b>\$14,939</b> | <b>\$33,528</b> | <b>\$5,588</b> |

| (\$ 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)        |
| <b>Free Cash Flow</b>                 | <b>(\$18,232)</b> | <b>(\$11,388)</b> | <b>\$10,348</b> | <b>\$6,271</b> | <b>(\$13,001)</b> |

| (\$ 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)      |
| <b>Free Cash Flow</b>                 | <b>(\$13,068)</b> | <b>\$2,995</b> | <b>\$15,704</b> | <b>\$31,474</b> | <b>\$37,105</b> |

| (\$ 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)      |
| <b>Free Cash Flow</b>                 | <b>(\$7,873)</b> | <b>\$15,042</b> | <b>\$15,951</b> | <b>\$26,055</b> | <b>\$49,175</b> |

| (\$ in thousands)                     | Q1               | Q2             | Q3              | Q4              | Fiscal 2017     |
|---------------------------------------|------------------|----------------|-----------------|-----------------|-----------------|
| Cash provided by operating activities | \$3,081          | \$13,648       | \$28,531        | \$33,294        | \$78,554        |
| Capital expenditures                  | (\$8,141)        | (\$9,409)      | (\$9,548)       | (\$7,466)       | (\$34,564)      |
| <b>Free Cash Flow</b>                 | <b>(\$5,060)</b> | <b>\$4,239</b> | <b>\$18,983</b> | <b>\$25,828</b> | <b>\$43,990</b> |

| (\$ in thousands)                     | Q1 2018      | Q2 2018        |
|---------------------------------------|--------------|----------------|
| Cash provided by operating activities | \$8,192      | \$13,423       |
| Capital expenditures                  | (\$7,811)    | (\$7,402)      |
| <b>Free Cash Flow</b>                 | <b>\$381</b> | <b>\$6,021</b> |



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