

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 31, 2023
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number 1-33913

QUANEX BUILDING PRODUCTS CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

26-1561397
(I.R.S. Employer
Identification No.)

1800 West Loop South, Suite 1500, Houston, Texas 77027

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (713) 961-4600

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of each class</u> | <u>Trading Symbol(s)</u> | <u>Name of each exchange on which registered</u> |
|--|--------------------------|--|
| Common Stock, par value \$0.01 per share | NX | New York Stock Exchange |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|-------------------------|--|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Securities Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the registrant's Common Stock as of August 24, 2023 was 32,986,332.

QUANEX BUILDING PRODUCTS CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

**QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)**

| | July 31, 2023 | October 31, 2022 |
|--|--------------------------|-----------------------------|
| (In thousands, except share amounts) | | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 73,252 | \$ 55,093 |
| Accounts receivable, net of allowance for credit losses of \$408 and \$289 | 96,204 | 96,018 |
| Inventories, net | 105,368 | 120,890 |
| Prepaid and other current assets | 12,764 | 8,664 |
| Total current assets | 287,588 | 280,665 |
| Property, plant and equipment, net of accumulated depreciation of \$368,979 and \$348,528 | 245,912 | 180,400 |
| Operating lease right-of-use assets | 45,804 | 56,000 |
| Goodwill | 186,409 | 137,855 |
| Intangible assets, net | 78,617 | 65,035 |
| Other assets | 3,479 | 4,662 |
| Total assets | \$ 847,809 | \$ 724,617 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 71,464 | \$ 77,907 |
| Accrued liabilities | 54,237 | 52,114 |
| Income taxes payable | — | 1,049 |
| Current maturities of long-term debt | 2,278 | 1,046 |
| Current operating lease liabilities | 7,388 | 7,727 |
| Total current liabilities | 135,367 | 139,843 |
| Long-term debt | 107,234 | 29,628 |
| Noncurrent operating lease liabilities | 39,291 | 49,286 |
| Deferred pension benefits | — | 3,917 |
| Deferred income taxes | 23,741 | 22,277 |
| Other liabilities | 16,221 | 14,831 |
| Total liabilities | 321,854 | 259,782 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, no par value, shares authorized 1,000,000; issued and outstanding - none | — | — |
| Common stock, \$0.01 par value, shares authorized 125,000,000; issued 37,176,958 and 37,211,056, respectively; outstanding 32,986,332 and 33,129,250, respectively | 372 | 372 |
| Additional paid-in-capital | 250,882 | 251,947 |
| Retained earnings | 384,623 | 337,456 |
| Accumulated other comprehensive loss | (31,890) | (49,422) |
| Less: Treasury stock at cost, 4,190,626 and 4,081,806 shares, respectively | (78,032) | (75,518) |
| Total stockholders' equity | 525,955 | 464,835 |
| Total liabilities and stockholders' equity | \$ 847,809 | \$ 724,617 |

The accompanying notes are an integral part of the financial statements.

QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | Three Months Ended July 31, | | Nine Months Ended July 31, | |
|---|--|------------|-------------------------------|------------|
| | 2023 | 2022 | 2023 | 2022 |
| | (In thousands, except per share amounts) | | | |
| Net sales | \$ 299,640 | \$ 324,037 | \$ 835,091 | \$ 913,970 |
| Cost and expenses: | | | | |
| Cost of sales (excluding depreciation and amortization) | 221,065 | 251,446 | 637,586 | 712,931 |
| Selling, general and administrative | 30,516 | 28,822 | 94,631 | 87,774 |
| Depreciation and amortization | 10,596 | 9,734 | 31,672 | 30,554 |
| Operating income | 37,463 | 34,035 | 71,202 | 82,711 |
| Non-operating (expense) income: | | | | |
| Interest expense | (2,068) | (724) | (6,571) | (1,849) |
| Other, net | 402 | 398 | 591 | 905 |
| Income before income taxes | 35,797 | 33,709 | 65,222 | 81,767 |
| Income tax expense | (4,099) | (7,801) | (10,103) | (18,098) |
| Net income | \$ 31,698 | \$ 25,908 | \$ 55,119 | \$ 63,669 |
| Basic earnings per common share | \$ 0.97 | \$ 0.79 | \$ 1.68 | \$ 1.92 |
| Diluted earnings per common share | \$ 0.96 | \$ 0.78 | \$ 1.67 | \$ 1.91 |
| Weighted-average common shares outstanding: | | | | |
| Basic | 32,716 | 32,999 | 32,841 | 33,093 |
| Diluted | 32,919 | 33,173 | 33,031 | 33,256 |
| Cash dividends per share | \$ 0.08 | \$ 0.08 | \$ 0.24 | \$ 0.24 |

The accompanying notes are an integral part of the financial statements.

QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|------------------|
| | July 31, | | July 31, | |
| | 2023 | 2022 | 2023 | 2022 |
| | (In thousands) | | | |
| Net income | 31,698 | 25,908 | \$ 55,119 | \$ 63,669 |
| <i>Other comprehensive income (loss):</i> | | | | |
| Foreign currency translation gain (loss) | 3,078 | (5,168) | 17,532 | (19,595) |
| Other comprehensive income (loss) | 3,078 | (5,168) | 17,532 | (19,595) |
| Comprehensive income | <u>\$ 34,776</u> | <u>\$ 20,740</u> | <u>\$ 72,651</u> | <u>\$ 44,074</u> |

The accompanying notes are an integral part of the financial statements.

QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Nine Months Ended July 31, | |
|---|-------------------------------|-----------|
| | 2023 | 2022 |
| (In thousands) | | |
| Operating activities: | | |
| Net income | \$ 55,119 | \$ 63,669 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 31,672 | 30,554 |
| Stock-based compensation | 1,828 | 1,707 |
| Deferred income tax | 177 | 505 |
| Other, net | 2,423 | 2,647 |
| Changes in assets and liabilities: | | |
| Decrease (increase) in accounts receivable | 9,918 | (5,306) |
| Decrease (increase) in inventory | 23,864 | (48,280) |
| Increase in other current assets | (439) | (824) |
| (Decrease) increase in accounts payable | (15,471) | 2,765 |
| Decrease in accrued liabilities | (5,152) | (4,721) |
| (Decrease) increase in income taxes payable | (3,534) | 7,522 |
| Increase (decrease) in deferred pension benefits | 22 | (239) |
| Increase in other long-term liabilities | 609 | 32 |
| Other, net | 1,523 | (177) |
| Cash provided by operating activities | 102,559 | 49,854 |
| Investing activities: | | |
| Business acquisition | (91,302) | — |
| Capital expenditures | (22,450) | (19,488) |
| Proceeds from disposition of capital assets | 183 | 134 |
| Cash used for investing activities | (113,569) | (19,354) |
| Financing activities: | | |
| Borrowings under credit facilities | 102,000 | 70,500 |
| Repayments of credit facility borrowings | (60,000) | (70,500) |
| Debt issuance costs | — | (1,210) |
| Repayments of other long-term debt | (1,954) | (1,301) |
| Common stock dividends paid | (7,952) | (7,916) |
| Issuance of common stock | 753 | 502 |
| Payroll tax paid to settle shares forfeited upon vesting of stock | (567) | (1,412) |
| Purchase of treasury stock | (5,593) | (6,600) |
| Cash provided by (used for) financing activities | 26,687 | (17,937) |
| Effect of exchange rate changes on cash and cash equivalents | 2,482 | (2,594) |
| Increase in cash and cash equivalents | 18,159 | 9,969 |
| Cash and cash equivalents at beginning of period | 55,093 | 40,061 |
| Cash and cash equivalents at end of period | \$ 73,252 | \$ 50,030 |

The accompanying notes are an integral part of the financial statements.

QUANEX BUILDING PRODUCTS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

| Nine Months Ended July 31, 2023 | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Total Stockholders' Equity |
|---|-------------------------|---|------------------------------|---|---------------------------|---|
| (In thousands, no per share amounts shown except in verbiage) | | | | | | |
| Balance at October 31, 2022 | \$ 372 | \$ 251,947 | \$ 337,456 | \$ (49,422) | \$ (75,518) | \$ 464,835 |
| Net income | — | — | 1,909 | — | — | 1,909 |
| Foreign currency translation adjustment | — | — | — | 11,372 | — | 11,372 |
| Common dividends (\$0.08 per share) | — | — | (2,661) | — | — | (2,661) |
| <i>Stock-based compensation activity:</i> | | | | | | |
| Expense related to stock-based compensation | — | 679 | — | — | — | 679 |
| Stock options exercised | — | 6 | — | — | 93 | 99 |
| Restricted stock awards granted | — | (1,752) | — | — | 1,752 | — |
| Performance restricted stock units vested | — | (605) | — | — | 605 | — |
| Other | — | (545) | — | — | — | (545) |
| Balance at January 31, 2023 | \$ 372 | \$ 249,730 | \$ 336,704 | \$ (38,050) | \$ (73,068) | \$ 475,688 |
| Net income | — | — | 21,512 | — | — | 21,512 |
| Foreign currency translation adjustment | — | — | — | 3,082 | — | 3,082 |
| Common dividends (\$0.08 per share) | — | — | (2,659) | — | — | (2,659) |
| Purchase of treasury stock | — | — | — | — | (5,593) | (5,593) |
| <i>Stock-based compensation activity:</i> | | | | | | |
| Expense related to stock-based compensation | — | 719 | — | — | — | 719 |
| Other | — | (22) | — | — | — | (22) |
| Balance at April 30, 2023 | \$ 372 | \$ 250,427 | \$ 355,557 | \$ (34,968) | \$ (78,661) | \$ 492,727 |
| Net income | — | — | 31,698 | — | — | 31,698 |
| Foreign currency translation adjustment | — | — | — | 3,078 | — | 3,078 |
| Common dividends (\$0.08 per share) | — | — | (2,632) | — | — | (2,632) |
| <i>Stock-based compensation activity:</i> | | | | | | |
| Expense related to stock-based compensation | — | 430 | — | — | — | 430 |
| Stock options exercised | — | 25 | — | — | 629 | 654 |
| Balance at July 31, 2023 | \$ 372 | \$ 250,882 | \$ 384,623 | \$ (31,890) | \$ (78,032) | \$ 525,955 |

| <u>Nine Months Ended July 31, 2022</u> | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Total Stockholders' Equity |
|---|-------------------------|---|------------------------------|---|---------------------------|---|
| (In thousands, no per share amounts shown except in verbiage) | | | | | | |
| Balance at October 31, 2021 | \$ 373 | \$ 254,162 | \$ 259,718 | \$ (21,770) | \$ (72,701) | \$ 419,782 |
| Net income | — | — | 11,239 | — | — | 11,239 |
| Foreign currency translation adjustment | — | — | — | (3,159) | — | (3,159) |
| Common dividends (\$0.08 per share) | — | — | (2,587) | — | — | (2,587) |
| <i>Stock-based compensation activity:</i> | | | | | | |
| Expense related to stock-based compensation | — | 552 | — | — | — | 552 |
| Stock options exercised | — | 5 | — | — | 50 | 55 |
| Restricted stock awards granted | — | (1,534) | — | — | 1,534 | — |
| Performance restricted stock units vested | — | (1,598) | — | — | 1,598 | — |
| Other | — | (1,383) | — | — | — | (1,383) |
| Balance at January 31, 2022 | \$ 373 | \$ 250,204 | \$ 268,370 | \$ (24,929) | \$ (69,519) | \$ 424,499 |
| Net income | — | — | 26,522 | — | — | 26,522 |
| Foreign currency translation adjustment | — | — | — | (11,268) | — | (11,268) |
| Common dividends (\$0.08 per share) | — | — | (2,671) | — | — | (2,671) |
| Purchase of treasury stock | — | — | — | — | (1,569) | (1,569) |
| <i>Stock-based compensation activity:</i> | | | | | | |
| Expense related to stock-based compensation | — | 572 | — | — | — | 572 |
| Stock options exercised | — | 9 | — | — | 109 | 118 |
| Other | — | (29) | — | — | — | (29) |
| Balance at April 30, 2022 | \$ 373 | \$ 250,756 | \$ 292,221 | \$ (36,197) | \$ (70,979) | \$ 436,174 |
| Net income | — | — | 25,908 | — | — | 25,908 |
| Foreign currency translation adjustment | — | — | — | (5,168) | — | (5,168) |
| Common dividends (\$0.08 per share) | — | — | (2,658) | — | — | (2,658) |
| Purchase of treasury stock | — | — | — | — | (5,031) | (5,031) |
| <i>Stock-based compensation activity:</i> | | | | | | |
| Expense related to stock-based compensation | — | 583 | — | — | — | 583 |
| Stock options exercised | — | 20 | — | — | 309 | 329 |
| Balance at July 31, 2022 | \$ 373 | \$ 251,359 | \$ 315,471 | \$ (41,365) | \$ (75,701) | \$ 450,137 |

The accompanying notes are an integral part of the financial statements.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Basis of Presentation

Quanex Building Products Corporation is a global, publicly traded manufacturing company primarily serving original equipment manufacturers (OEMs) in the fenestration, cabinetry, solar, refrigeration and outdoor products markets. These components can be categorized as window and door (fenestration) components and kitchen and bath cabinet components. Examples of fenestration components include: (1) energy-efficient flexible insulating glass spacers, (2) extruded vinyl profiles, (3) window and door screens, and (4) precision-formed metal and wood products. We also manufacture cabinet doors and other components for OEMs in the kitchen and bathroom cabinet industry. In addition, we provide certain other non-fenestration components and products, which include custom mixing, solar panel sealants, trim moldings, vinyl decking, vinyl fencing, customized compounds, water retention barriers, and conservatory roof components. We have organized our business into three reportable business segments. For additional discussion of our reportable business segments, see Note 12, "Segment Information." We use low-cost, short lead-time production processes and engineering expertise to provide our customers with specialized products for their specific window, door, and cabinet applications. We believe these capabilities provide us with unique competitive advantages. We serve a primary customer base in North America and the United Kingdom (U.K.), and also serve customers in international markets through our operating plants in the U.K. and Germany, as well as through sales and marketing efforts in other countries.

Unless the context indicates otherwise, references to "Quanex", the "Company", "we", "us" and "our" refer to the consolidated business operations of Quanex Building Products Corporation and its subsidiaries.

Basis of Presentation and Principles of Consolidation

The accompanying interim unaudited condensed consolidated financial statements include the accounts of Quanex Building Products Corporation. All intercompany accounts and transactions have been eliminated in consolidation. These financial statements have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. The condensed consolidated balance sheet as of October 31, 2022 was derived from audited financial information but does not include all disclosures required by U.S. GAAP. The accompanying financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto, included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2022. In our opinion, the accompanying financial statements contain all adjustments (which consist of normal recurring adjustments, except as disclosed herein) necessary to fairly present our financial position, results of operations and cash flows for the interim periods. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the full year or for any future periods.

Use of Estimates

In preparing financial statements, we make informed judgments and estimates that affect the reported amounts of assets and liabilities as of the date of the financial statements and affect the reported amounts of revenues and expenses during the reporting period. We review our estimates on an on-going basis, including those related to impairment of long-lived assets and goodwill, contingencies and income taxes. Changes in facts and circumstances may result in revised estimates and actual results may differ from these estimates.

Revenue from Contracts with Customers

Revenue recognition

We recognize revenue that reflects the consideration we expect to receive for product sales upon transfer to customers. Revenue for product sales is recognized when control of the promised products is transferred to our customers, and we are entitled to consideration in exchange for such transfer. We account for a contract when a customer provides us with a firm purchase order that identifies the products to be provided, the payment terms for those products, and when collectability of the consideration due is probable.

Performance obligations

A performance obligation is a promise to provide the customer with a good or service. Our performance obligations include product sales, with each product included in a customer contract being recognized as a separate performance obligation.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For contracts with multiple performance obligations, the standalone selling price of each product is generally readily observable.

Revenue from product sales is recognized at a point in time when the product is transferred to the customer, in accordance with the shipping terms, which is generally upon shipment. We estimate a provision for sales returns and warranty allowances to account for product returns related to general returns and product nonconformance.

We generally expense incremental costs of obtaining a contract when incurred because the amortization period would be less than one year. Additionally, we do not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

Pricing and sales incentives

Pricing is established at or prior to the time of sale with our customers and we record sales at the agreed-upon net selling price, reflective of current and prospective discounts.

Shipping and handling costs

We account for shipping and handling services as fulfillment services; accordingly, freight revenue is combined with the product deliverable rather than being accounted for as a distinct performance obligation within the terms of the agreement. Shipping and handling costs incurred by us for the delivery of goods to customers are considered a cost to fulfill the contract and are included in cost of sales in the accompanying condensed consolidated statements of income.

Contract assets and liabilities

Deferred revenue, which is not significant, is recorded when we have remaining unsatisfied performance obligations for which we have received consideration.

Disaggregation of revenue

We produce a wide variety of products that are used in the fenestration industry, including window spacer systems; extruded vinyl products; metal fabricated products; and astragals, thresholds and screens. In addition, we produce certain non-fenestration products, including kitchen and bath cabinet doors and components, flooring and trim moldings, solar edge tape, plastic decking, fencing, water retention barriers, conservatory roof components, and other products.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarizes our product sales for the three and nine months ended July 31, 2023 and 2022 into groupings by segment which we believe depicts how the nature, amount, timing and uncertainty of our revenues and cash flows are affected by economic factors. For further details regarding our results by segment, refer to Note 12, "Segment Information".

| | Three Months Ended July 31, | | Nine Months Ended July 31, | |
|---|--------------------------------|-------------------|-------------------------------|-------------------|
| | 2023 | 2022 | 2023 | 2022 |
| (In thousands) | | | | |
| North American Fenestration: | | | | |
| United States - fenestration | \$ 138,090 | \$ 162,215 | \$ 379,613 | \$ 447,425 |
| International - fenestration | 8,542 | 10,722 | 22,019 | 30,952 |
| United States - non-fenestration | 26,423 | 8,324 | 73,823 | 22,117 |
| International - non-fenestration | 4,026 | 3,483 | 11,581 | 8,789 |
| | <u>\$ 177,081</u> | <u>\$ 184,744</u> | <u>\$ 487,036</u> | <u>\$ 509,283</u> |
| European Fenestration: | | | | |
| International - fenestration | \$ 51,752 | \$ 49,041 | \$ 142,009 | \$ 148,525 |
| International - non-fenestration | 16,137 | 18,572 | 44,595 | 51,429 |
| | <u>\$ 67,889</u> | <u>\$ 67,613</u> | <u>\$ 186,604</u> | <u>\$ 199,954</u> |
| North American Cabinet Components: | | | | |
| United States - fenestration | \$ 4,486 | \$ 4,857 | \$ 12,613 | \$ 13,288 |
| United States - non-fenestration | 50,199 | 66,758 | 148,774 | 191,908 |
| International - non-fenestration | 700 | 865 | 2,190 | 2,515 |
| | <u>\$ 55,385</u> | <u>\$ 72,480</u> | <u>\$ 163,577</u> | <u>\$ 207,711</u> |
| Unallocated Corporate & Other | | | | |
| Eliminations | \$ (715) | \$ (800) | \$ (2,126) | \$ (2,978) |
| | <u>\$ (715)</u> | <u>\$ (800)</u> | <u>\$ (2,126)</u> | <u>\$ (2,978)</u> |
| Net sales | <u>\$ 299,640</u> | <u>\$ 324,037</u> | <u>\$ 835,091</u> | <u>\$ 913,970</u> |

Allowance for Credit Losses

We have established an allowance for credit losses to estimate the risk of losses, which represents an estimate of expected losses over the remaining contractual life of our receivables. The allowance is determined using two methods. The amounts calculated from each of these methods are combined to determine the total amount reserved. First, a specific reserve is established for individual accounts where information indicates the customers may have an inability to meet financial obligations. Second, a reserve is determined for all customers based on a range of percentages applied to aging categories. These percentages are based on historical collection rates, write-off experience, and forecasts of future economic conditions. Actual write-offs are charged against the allowance when collection efforts have been unsuccessful.

Related Parties

Net sales include transactions with a customer which is a related party with one of our non-employee directors for the nine months ended July 31, 2023 of approximately \$0.9 million and \$1.6 million for the comparable prior year period. We performed a review of these transactions, of which no single transaction or series of related transactions exceeded \$120,000 in amount, and determined that these transactions were enacted independently of each other. We are not aware of any other related party transactions with any of our current non-employee directors or officers outside of their normal business functions or expected contractual duties.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Acquisition

On November 1, 2022, we entered into an Asset Purchase Agreement (the "Purchase Agreement") with LMI Custom Mixing, LLC ("LMI") and the equity owners of LMI, Lauren International, Ltd. and Meteor-US-Beteiligungs GMBH. Under the Purchase Agreement, we acquired substantially all of the operating assets comprising LMI's polymer mixing and rubber compound production business (collectively, the "Purchased Assets") and also agreed to assume certain liabilities relating to the Purchased Assets (collectively, the "Acquisition"). As consideration for the Purchased Assets, we paid \$91.3 million in cash utilizing funds borrowed under our Credit Facility. Subsequent to the Acquisition, we had approximately \$215 million available for use under the Credit Facility. For the three and nine months ended July 31, 2023, our consolidated operating results included net sales of \$19.8 million and \$54.0 million, respectively, and operating income of \$1.7 million and \$5.1 million, respectively, associated with LMI. In connection with the Acquisition, we amended our existing finance lease with Lauren Real Estate Holding LLC for the purpose of adding an additional lease renewal option and increasing rental space by approximately 60,000 square feet of rental space which was added to the 313,595 square feet of rentable area located in Cambridge, Ohio.

As of July 31, 2023, we are still determining the purchase price allocation for LMI. A preliminary purchase price allocation of the fair value of the assets acquired and liabilities assumed is included in the table below. These estimates are subject to change and will likely result in an increase or decrease in goodwill, particularly with regard to third-party valuations and our estimates of fixed assets, intangible assets, and inventory, during the measurement period, which may extend up to one year from the acquisition date.

| | As of Date of Opening Balance Sheet (In thousands) |
|---|---|
| Net assets acquired: | |
| Accounts receivable | \$ 7,012 |
| Inventories, net | 5,684 |
| Other assets | 790 |
| Property, plant and equipment, net | 35,887 |
| Goodwill | 41,393 |
| Intangible assets, net | 19,500 |
| Accounts payable | (4,736) |
| Accrued liabilities | (507) |
| Long-term debt (finance leases) | (13,721) |
| Net assets acquired | <u>\$ 91,302</u> |
| Consideration: | |
| Cash, net of cash and cash equivalents acquired | <u>\$ 91,302</u> |

We used recognized valuation techniques to determine the preliminary fair value of the assets and liabilities, including the excess earnings method for customer relationships and relief from royalty method for trade names and other technology with a discount rate that reflects the risk of the expected future cash flows. The goodwill balance is deductible for tax purposes. LMI is allocated entirely to our North American Fenestration reportable operating segment.

Pro Forma Results

We calculated the pro forma impact of the LMI acquisitions and the associated debt financing on our operating results for the three and nine months ended July 31, 2022. The following pro forma results give effect to these acquisitions, assuming the transaction occurred on November 1, 2021.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|---------|-------------------|---------|
| | July 31, 2022 | | July 31, 2022 | |
| (In thousands, except per share amounts) | | | | |
| Net sales | \$ | 341,925 | \$ | 963,797 |
| Net income | \$ | 27,649 | \$ | 68,252 |
| Basic earnings per share | \$ | 0.84 | \$ | 2.06 |
| Diluted earnings per share | \$ | 0.83 | \$ | 2.05 |

We derived the pro forma results for the LMI acquisition based on historical financial information obtained from the sellers and certain management assumptions. Our pro forma adjustments relate to the elimination of LMI intercompany sales to our North American Fenestration reportable segment and related cost of sales, incremental depreciation and amortization expense associated with property, plant and equipment and intangible assets to affect the transactions, assuming a November 1, 2021 effective date. In addition, we calculated the tax impact of these adjustments at a 25% effective tax rate.

3. Inventories

Inventories consisted of the following at July 31, 2023 and October 31, 2022 (in thousands):

| | July 31, 2023 | October 31, 2022 |
|------------------------------------|------------------|---------------------|
| Raw materials | \$ 58,447 | \$ 68,455 |
| Finished goods and work in process | 47,988 | 54,013 |
| Supplies and other | 1,954 | 1,551 |
| Total | 108,389 | 124,019 |
| Less: Inventory reserves | 3,021 | 3,129 |
| Inventories, net | \$ 105,368 | \$ 120,890 |

Fixed costs related to excess manufacturing capacity, if any, have been expensed in the period they were incurred and, therefore, are not capitalized into inventory.

4. Leases

We recognize a right-of-use (ROU) asset and lease liability for each operating and finance lease with a contractual term greater than 12 months at the time of lease inception. We include ROU assets and lease liabilities for leases that exist within other contracts. Leases with an original term of 12 months or less are not recognized on the balance sheet, and the rent expense related to those short-term leases is recognized over the lease term. We do not account for lease and non-lease (e.g., common area maintenance) components of contracts separately for any underlying asset class.

We lease certain manufacturing plants, warehouses, office space, vehicles and equipment under finance and operating leases. Lease commencement occurs on the date we take possession or control of the property or equipment. Original terms for our real estate-related leases are generally between five years and twenty years. Original terms for equipment-related leases, primarily manufacturing equipment and vehicles, are generally between one year and ten years. Some of our leases also include rental escalation clauses. Renewal options are included in the determination of lease payments when management determines the options are reasonably certain of exercise, considering financial performance, strategic importance and/or invested capital.

If readily determinable, the rate implicit in the lease is used to discount lease payments to present value; however, substantially all of our leases do not provide a readily determinable implicit rate. When the implicit rate is not determinable, our estimated incremental borrowing rate is utilized, determined on a collateralized basis, to discount lease payments based on information available at lease commencement.

Total lease costs recorded include fixed operating lease costs and variable lease costs. Most of our real estate leases require we pay certain expenses, such as common area maintenance costs, of which the fixed portion is included in operating lease costs. We recognize operating lease costs on a straight-line basis over the lease term. In addition to the above costs, variable lease costs are recognized when probable and are not included in determining the present value of our lease liability.

The ROU asset is measured at the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date and initial direct costs. For operating leases, ROU assets are reduced over the lease term by the

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

recognized straight-line lease expense less the amount of accretion of the lease liability determined using the effective interest method. For finance leases, ROU assets are amortized on a straight-line basis over the shorter of the useful life of the leased asset or the lease term. Interest expense on each finance lease liability is recognized utilizing the effective interest method. ROU assets are tested for impairment in the same manner as long-lived assets. Additionally, we monitor for events or changes in circumstances that may require a reassessment of one of our leases and determine if a remeasurement is required.

The table below presents the lease-related assets and liabilities recorded on the balance sheet at July 31, 2023 and October 31, 2022 (in thousands):

| Leases | Classification | July 31, 2023 | October 31, 2022 |
|--------------------------------|--|-------------------|---------------------|
| Assets | | | |
| Operating lease assets | Operating lease right-of-use assets | \$ 45,804 | \$ 56,000 |
| Finance lease assets | Property, plant and equipment (less accumulated depreciation of \$6,073 and \$3,726) | 58,804 | 22,003 |
| Total lease assets | | <u>\$ 104,608</u> | <u>\$ 78,003</u> |
| Liabilities | | | |
| Current | | | |
| Operating | Current operating lease liabilities | \$ 7,388 | \$ 7,727 |
| Finance | Current maturities of long-term debt | 2,579 | 1,336 |
| Noncurrent | | | |
| Operating | Noncurrent operating lease liabilities | 39,291 | 49,286 |
| Finance | Long-term debt | 53,189 | 17,816 |
| Total lease liabilities | | <u>\$ 102,447</u> | <u>\$ 76,165</u> |

The table below presents the components of lease costs for the three and nine months ended July 31, 2023 and 2022 as follows (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|-------------------------------|--------------------|-----------------|-------------------|-----------------|
| | July 31, | | July 31, | |
| | 2023 | 2022 | 2023 | 2022 |
| Operating lease cost | \$ 2,322 | \$ 2,466 | \$ 6,731 | \$ 7,540 |
| Finance lease cost | | | | |
| Amortization of leased assets | 824 | 337 | 2,439 | 929 |
| Interest on lease liabilities | 612 | 142 | 1,815 | 402 |
| Variable lease costs | 420 | 279 | 1,210 | 759 |
| Total lease cost | <u>\$ 4,178</u> | <u>\$ 3,224</u> | <u>\$ 12,195</u> | <u>\$ 9,630</u> |

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The table below presents supplemental cash flow information related to leases for the nine months ended July 31, 2023 and 2022 as follows (in thousands):

| | Nine Months Ended July 31, | |
|--|-------------------------------|----------|
| | 2023 | 2022 |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Finance leases - financing cash flows | \$ 1,762 | \$ 838 |
| Finance leases - operating cash flows | \$ 1,815 | \$ 402 |
| Operating leases - operating cash flows | \$ 6,848 | \$ 7,551 |
| Right-of-use assets obtained in exchange for lease liabilities: | | |
| Operating leases | \$ 3,714 | \$ 1,259 |
| Finance leases | \$ 25,723 | \$ 6,028 |

The table below presents the weighted-average remaining lease terms and weighted-average discount rates for the Company's leases as of July 31, 2023 and October 31, 2022:

| | July 31, 2023 | October 31, 2022 |
|---|---------------|---------------------|
| Weighted-average remaining lease term (in years) | | |
| Operating leases | 10.8 | 10.8 |
| Financing leases | 19.0 | 13.7 |
| Weighted-average discount rate | | |
| Operating leases | 4.01 % | 3.84 % |
| Financing leases | 4.49 % | 3.78 % |

The table below presents the maturity of the lease liabilities as of July 31, 2023 (in thousands):

| | Operating Leases | Finance Leases |
|--------------------------------|------------------|----------------|
| 2023 (remaining three months) | \$ 2,352 | \$ 1,246 |
| 2024 | 8,829 | 4,982 |
| 2025 | 7,202 | 4,899 |
| 2026 | 5,847 | 4,731 |
| 2027 | 4,811 | 4,589 |
| Thereafter | 30,062 | 63,062 |
| Total lease payments | 59,103 | 83,509 |
| Less: present value discount | 12,424 | 27,741 |
| Total lease liabilities | \$ 46,679 | \$ 55,768 |

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Goodwill and Intangible Assets

Goodwill

The change in the carrying amount of goodwill for the nine months ended July 31, 2023 was as follows (in thousands):

| | Nine Months Ended July 31, 2023 |
|--|--|
| Beginning balance as of November 1, 2022 | \$ 137,855 |
| LMI acquisition | 41,393 |
| Foreign currency translation adjustment | 7,161 |
| Balance as of the end of the period | <u>\$ 186,409</u> |

At our last annual test date, August 31, 2022, we evaluated the recoverability of goodwill at each of our five reporting units with goodwill balances and determined that our goodwill was not impaired. An additional reporting unit was acquired during the nine months ended July 31, 2023. We evaluated for indicators of impairment for all reporting units during the three and nine months ended July 31, 2023 and determined that there were no triggering events. For additional discussion of change in reporting units and a summary of the change in the carrying amount of goodwill by segment, see Note 12, "Segment Information."

Identifiable Intangible Assets

Amortizable intangible assets consisted of the following as of July 31, 2023 and October 31, 2022 (in thousands):

| | July 31, 2023 | | October 31, 2022 | |
|------------------------------|----------------------------------|-------------------------------------|----------------------------------|-------------------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Customer relationships | \$ 159,697 | \$ 97,647 | \$ 139,607 | \$ 88,646 |
| Trademarks and trade names | 56,161 | 42,737 | 54,389 | 40,610 |
| Patents and other technology | 25,162 | 22,019 | 22,390 | 22,095 |
| Total | <u>\$ 241,020</u> | <u>\$ 162,403</u> | <u>\$ 216,386</u> | <u>\$ 151,351</u> |

In connection to the LMI Acquisition, we added gross carrying intangibles of \$16.0 million of customer relationships, \$3.0 million of other technology and \$0.5 million of trade names, each with the weighted-average amortization of twenty years. We had aggregate amortization expense related to intangible assets for the three and nine months ended July 31, 2023 of \$3.0 million and \$9.1 million, respectively, and \$3.0 million and \$9.0 million for the comparable prior year periods.

Estimated remaining amortization expense, assuming current intangible balances and no new acquisitions, for future fiscal years as of July 31, 2023 (in thousands):

| | Estimated Amortization Expense |
|-------------------------------|---|
| 2023 (remaining three months) | \$ 3,003 |
| 2024 | 11,427 |
| 2025 | 10,199 |
| 2026 | 10,124 |
| 2027 | 10,125 |
| Thereafter | 33,739 |
| Total | <u>\$ 78,617</u> |

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Debt and Finance Lease Obligations

Long-term debt consisted of the following at July 31, 2023 and October 31, 2022 (in thousands):

| | July 31, 2023 | October 31, 2022 |
|--|-------------------|---------------------|
| Revolving Credit Facility | \$ 55,000 | \$ 13,000 |
| Finance lease obligations and other | 55,792 | 19,202 |
| Unamortized deferred financing fees | (1,280) | (1,528) |
| Total debt | \$ 109,512 | \$ 30,674 |
| Less: Current maturities of long-term debt | 2,278 | 1,046 |
| Long-term debt | <u>\$ 107,234</u> | <u>\$ 29,628</u> |

Revolving Credit Facility

On July 6, 2022, we entered into our Second Amended and Restated Credit Agreement (the "Credit Facility") with Wells Fargo Securities, LLC, as Agent, Swingline Lender and Issuing Lender, and BofA Securities, Inc. serving as Syndication Agent. We capitalized \$1.2 million of deferred financing fees related to the Credit Facility. This \$325.0 million revolving credit facility has a five-year term, maturing on July 6, 2027, and replaces our previous credit facility. Our previous credit facility is more fully described in our Annual Report on Form 10-K for the fiscal year ended October 31, 2022.

Interest payments for the Credit Facility are calculated, at our election and depending upon the Consolidated Net Leverage Ratio, at a Base Rate (as defined within the Credit Facility) plus an applicable margin or at the same rate as Risk-Free Rate ("RFR") Loans for domestic borrowings or Eurocurrency Rate Loans plus an applicable margin. In addition, we are subject to commitment fees for the unused portion of the Credit Facility.

The applicable margin and commitment fees are outlined in the following table:

| Pricing Level | Consolidated Net Leverage Ratio | Commitment Fee | Eurocurrency Rate Loans and RFR Loans | Base Rate Loans |
|---------------|---|----------------|---------------------------------------|-----------------|
| I | Less than or equal to 1.50 to 1.00 | 0.150% | 1.25% | 0.25% |
| II | Greater than 1.50 to 1.00, but less than or equal to 2.25 to 1.00 | 0.175% | 1.50% | 0.50% |
| III | Greater than 2.25 to 1.00, but less than or equal to 3.00 to 1.00 | 0.200% | 1.75% | 0.75% |
| IV | Greater than 3.00 to 1.00 | 0.250% | 2.00% | 1.00% |

In the event of default, outstanding borrowings would accrue interest at the Default Rate, as defined, whereby the obligations will bear interest at a per annum rate equal to 2% above the total per annum rate otherwise applicable.

The Credit Facility provides for incremental revolving credit commitments for a minimum principal amount of \$10.0 million, up to an aggregate amount of \$150.0 million or 100% of Consolidated EBITDA, subject to the lender's discretion to elect or decline the incremental increase. We can also borrow up to the lesser of \$15.0 million or the revolving credit commitment, as defined, under a Swingline feature of the Credit Facility.

The Credit Facility contains a: (1) Consolidated Interest Coverage Ratio requirement whereby we must not permit the Consolidated Interest Coverage Ratio, as defined, to be less than 3.00 to 1.00, and (2) Consolidated Net Leverage Ratio requirement, whereby we must not permit the Consolidated Net Leverage Ratio, as defined, to be greater than 3.25 to 1.00.

In addition to maintaining these financial covenants, the Credit Facility also limits our ability to enter into certain business transactions, such as to incur indebtedness or liens, to acquire businesses or dispose of material assets, make restricted payments, pay dividends (limited to \$25.0 million per year) and other transactions as further defined in the Credit Facility. Some of these limitations, however, do not take effect so long as Consolidated Net Leverage Ratio is less than or equal to 2.75 to 1.00 and available liquidity exceeds \$25.0 million. Substantially all of our domestic assets, with the exception of real property, are used as collateral for the Credit Agreement.

As of July 31, 2023, we had \$55.0 million of borrowings outstanding under the Credit Facility (reduced by unamortized debt issuance costs of \$1.3 million), \$5.1 million of outstanding letters of credit and \$55.8 million outstanding primarily under finance leases and other debt. We had \$264.9 million available for use under the Credit Facility at July 31, 2023. Outstanding

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

borrowings under the Credit Facility accrue interest at 6.67% per annum. Our weighted-average borrowing rate for borrowings outstanding during the nine months ended July 31, 2023 and 2022 was 5.91% and 1.81%, respectively. We were in compliance with our debt covenants as of July 31, 2023.

7. Retirement Plans

Pension Plan

Our non-contributory, single employer defined benefit pension plan covers certain of our employees in the U.S. The net periodic pension cost for this plan for the three and nine months ended July 31, 2023 and 2022 was as follows (in thousands):

| | Three Months Ended July 31, | | Nine Months Ended July 31, | |
|--------------------------------|--------------------------------|----------------|-------------------------------|-----------------|
| | 2023 | 2022 | 2023 | 2022 |
| Service cost | \$ 95 | \$ 215 | \$ 287 | \$ 645 |
| Interest cost | 390 | 201 | 1,169 | 604 |
| Expected return on plan assets | (366) | (498) | (1,099) | (1,493) |
| Amortization of net loss | 11 | 2 | 32 | 5 |
| Net periodic pension benefit | <u>\$ 130</u> | <u>\$ (80)</u> | <u>\$ 389</u> | <u>\$ (239)</u> |

During the nine months ended July 31, 2022, we made no contributions to fund our plan. During fiscal 2023, we may make a contribution to the pension plan equal to the remaining obligation in order to complete the plan termination that became effective November 1, 2022. In August 2023, some participants began receiving pension settlements. The pension obligation of \$3.9 million is included in current liabilities under the caption "Accrued liabilities" within current liabilities as of July 31, 2023 and under the caption "Pension benefit obligations" as of October 31, 2023 in the accompanying condensed consolidated balance sheets.

Other Plans

We also have a supplemental benefit plan covering certain executive officers and key employees and a non-qualified deferred compensation plan covering members of the Board of Directors and certain key employees. As of July 31, 2023 and October 31, 2022, our liability under the supplemental benefit plan was approximately \$2.0 million and \$1.9 million, respectively. During the three months ended July 31, 2023, the supplemental benefit plan was terminated. Benefits associated with this plan will be distributed in June 2024 in accordance with Internal Revenue Service regulations. As of July 31, 2023 and October 31, 2022, the liability associated with the deferred compensation plan was approximately \$4.1 million and \$3.3 million, respectively. We record the current portion of liabilities associated with these plans under the caption "Accrued liabilities," and the long-term portion under the caption "Other liabilities" in the accompanying condensed consolidated balance sheets.

8. Income Taxes

To determine our income tax expense or benefit for interim periods, consistent with accounting standards, we apply the estimated annual effective income tax rate to year-to-date results, plus any applicable discrete items, which are recorded in the period in which they occur. Discrete items include, among others, such events as changes in estimates due to the finalization of tax returns, tax audit settlements, expiration of statutes of limitations, tax benefits on equity compensation, and increase or decrease in valuation allowances on deferred tax assets. Our annual effective tax rates from continuing operations for the nine months ended July 31, 2023 and 2022 were 18.2% and 22.2%, respectively. The difference between our effective income tax rate and the U.S. federal statutory rate of 21% principally results from discrete tax items, U.S. state tax, non-U.S. tax rate differential and other permanent differences. The primary discrete item affecting the 2023 effective rate was a benefit of \$1.7 million related to a true-up of tax provision accrual to tax return filings. The primary discrete items affecting the 2022 effective rate were the charge of \$0.2 million related to the vesting or exercise of equity-based compensation awards and a benefit of \$1.0 million for the true-up of our accruals and related deferred taxes from prior year filings.

As of July 31, 2023, our liability for uncertain tax positions (UTP) of \$1.4 million relates to certain U.S. federal and state tax items regarding the interpretation of tax laws and regulations, including a minimal amount of interest and penalties. We include all interest and penalties related to uncertain tax benefits within our income tax provision account. To the extent interest and penalties are not assessed with respect to uncertain tax positions or the uncertainty of deductions in the future, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of July 31, 2023, we have an income tax receivable of \$2.5 million included in current assets under the caption “Prepaid and other current assets” in the accompanying condensed consolidated balance sheets.

We evaluate the likelihood of realization of our deferred tax assets by considering both positive and negative evidence. We maintain a valuation allowance for certain state net operating losses which totaled \$0.5 million as of July 31, 2023 and October 31, 2022, respectively.

On August 16, 2022 the Inflation Reduction Act of 2022 was signed into law. We are evaluating the regulations but do not believe they will result in a material impact to our consolidated financial statements.

9. Contingencies

Remediation and Environmental Compliance Costs

Under applicable state and federal laws, we may be responsible for, among other things, all or part of the costs required to remove or remediate wastes or hazardous substances at locations we, or our predecessors, have owned or operated. From time to time, we also have been alleged to be liable for all or part of the costs incurred to clean up third-party sites where there might have been an alleged improper disposal of hazardous substances. Currently, we are not involved in any such matters.

From time to time, we incur routine expenses and capital expenditures associated with compliance with existing environmental regulations, including control of air emissions and water discharges, and plant decommissioning costs. We have not incurred any material expenses or capital expenditures related to environmental matters during the past three fiscal years, and do not expect to incur a material amount of such costs in fiscal 2023. While we will continue to have future expenditures related to environmental matters, any such amounts are impossible to reasonably estimate at this time. Based upon our experience to date, we do not believe that our compliance with environmental requirements will have a material adverse effect on our operations, financial condition or cash flows.

Litigation

From time to time, we, along with our subsidiaries, are involved in various litigation matters arising in the ordinary course of our business, including those arising from or related to contractual matters, commercial disputes, intellectual property, personal injury, environmental matters, product performance or warranties, product liability, insurance coverage and personnel and employment disputes. We regularly review with legal counsel the status of all ongoing proceedings, and we maintain insurance against these risks to the extent deemed prudent by our management and to the extent such insurance is available. However, there is no assurance that we will prevail in these matters or that our insurers will accept full coverage of these matters, and we could, in the future, incur judgments, enter into settlements of claims, or revise our expectations regarding the outcome or insurability of matters we face, which could materially impact our results of operations.

We have been and are currently party to multiple claims, some of which are in litigation, relating to alleged defects in a commercial sealant product that was manufactured and sold during the 2000's. While we believe that our product was not defective and that we would prevail in these commercial sealant product claims if taken to trial, the timing, ultimate resolution and potential impact of these claims is not currently determinable. Nevertheless, after taking into account all currently available information, including our defenses, the advice of our counsel, and the extent and currently-expected availability of our existing insurance coverage, we believe that the eventual outcome of these commercial sealant claims will not have a material adverse effect on our overall financial condition, results of operations or cash flows, and we have not recorded any accrual with regard to these claims.

10. Fair Value Measurement of Assets and Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market data developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to Level 1 and the lowest priority to Level 3. The three levels of the fair value hierarchy are described below:

- Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates) and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs that are both significant to the fair value measurement and unobservable.

Carrying amounts reported on the balance sheet for cash, cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturity of these instruments. Our outstanding debt is variable rate debt that re-prices frequently, thereby limiting our exposure to significant change in interest rate risk. As a result, the fair value of our debt instrument approximates carrying value at July 31, 2023, and October 31, 2022 (Level 2 measurement).

Our performance share awards are marked-to-market on a quarterly basis during a three-year vesting period based on market data (Level 2 measurement). For further information, refer to Note 11, "Stock-Based Compensation - Performance Share Awards."

We used recognized valuation techniques to determine the preliminary fair value of the assets and liabilities, including the excess earnings method for customer relationships and relief from royalty method for trade names and other technology with a discount rate that reflects the risk of the expected future cash flows (Level 3 measurement). For further information, refer to Note 2, "Acquisition."

11. Stock-Based Compensation

We have established and maintain an Omnibus Incentive Plan (2020 Plan) that provides for the granting of restricted stock awards, stock options, restricted stock units, performance share awards, performance restricted stock units, and other stock-based and cash-based awards. The 2020 Plan is administered by the Compensation and Management Development Committee of the Board of Directors.

The aggregate number of shares of common stock authorized for grant under the 2020 Plan is 3,139,895 as approved by shareholders. Any officer, key employee and/or non-employee director is eligible for awards under the 2020 Plan. We grant restricted stock units to non-employee directors on the first business day of each fiscal year. As approved by the Compensation & Management Development Committee of our Board of Directors annually, we grant a mix of restricted stock awards, performance shares and performance restricted stock units to officers, management and key employees. We also historically granted stock options to certain officers, directors and key employees. Occasionally, we may make additional grants to key employees at other times during the year.

Restricted Stock Awards

Restricted stock awards are granted to key employees and officers annually, and typically cliff vest over a three-year period with service and continued employment as the only vesting criteria. The recipient of the restricted stock award is entitled to all of the rights of a shareholder, except that the award is nontransferable during the vesting period and quarterly dividends are not paid until the award vests. The fair value of the restricted stock award is established on the grant date and then expensed over the vesting period resulting in an increase in additional paid-in-capital. Shares are generally issued from treasury stock at the time of grant.

A summary of non-vested restricted stock awards activity during the nine months ended July 31, 2023 is presented below:

| | Restricted Stock Awards | Weighted-Average Grant Date Fair Value per Share |
|--------------------------------|-------------------------|---|
| Non-vested at October 31, 2022 | 212,100 | \$ 20.86 |
| Granted | 94,700 | 23.49 |
| Forfeited | (10,100) | 22.30 |
| Vested | (54,400) | 18.49 |
| Non-vested at July 31, 2023 | <u>242,300</u> | <u>\$ 22.36</u> |

The total weighted-average grant-date fair value of restricted stock awards that vested during each of the nine months ended July 31, 2023 and 2022 was \$1.0 million and \$1.2 million, respectively. As of July 31, 2023, total unrecognized

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

compensation cost related to unamortized restricted stock awards was \$2.7 million. We expect to recognize this expense over the remaining weighted-average vesting period of 1.9 years.

Stock Options

Historically, stock options have been awarded to key employees, officers and non-employee directors. In December 2017, the Compensation & Management Development Committee of the Board of Directors approved a change to the long-term incentive award program eliminating the grant of stock options and replacing this award with a grant of performance restricted stock units and performance shares as further described below. As a result, the final stock options were granted during the fiscal year ended October 31, 2017. Stock options typically vested ratably over a three-year period with service and continued employment as the vesting conditions. Our stock options may be exercised up to a maximum of ten years from the date of grant. The fair value of the stock options was determined on the grant date and expensed over the vesting period resulting in an increase in additional paid-in-capital. For employees who were nearing retirement-eligibility, we recognize stock option expense ratably over the shorter of the vesting period or the period from the grant-date to the retirement-eligibility date.

We use a Black-Scholes pricing model to estimate the fair value of stock options. A description of the methodology for the valuation assumptions was disclosed in our Annual Report on Form 10-K for the fiscal year ended October 31, 2022.

The following table summarizes our stock option activity for the nine months ended July 31, 2023:

| | Stock Options | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (000s) |
|---------------------------------|----------------|------------------------------------|--|--|
| Outstanding at October 31, 2022 | 175,117 | \$ 19.39 | | |
| Granted | — | — | | |
| Exercised | (38,800) | 19.41 | | |
| Forfeited/Expired | (4,000) | 21.11 | | |
| Outstanding at July 31, 2023 | <u>132,317</u> | \$ 19.33 | 2.2 | \$ 1,166 |
| Vested at July 31, 2023 | <u>132,317</u> | \$ 19.33 | 2.2 | \$ 1,166 |
| Exercisable at July 31, 2023 | <u>132,317</u> | \$ 19.33 | 2.2 | \$ 1,166 |

Intrinsic value is the amount by which the market price of the common stock on the date of exercise exceeds the exercise price of the stock option. The total intrinsic value of stock options exercised during the nine months ended July 31, 2023 and 2022 was \$0.3 million and \$0.1 million, respectively.

Restricted Stock Units

Restricted stock units may be awarded to key employees and officers from time to time, and annually to non-employee directors. The non-employee director restricted stock units vest immediately but are payable only upon the director's cessation of service unless an election is made by the non-employee director to settle and pay the award on an earlier specified date. Restricted stock units awarded to employees and officers typically cliff vest after a three-year period with service and continued employment as the vesting conditions. Restricted stock units are not considered outstanding shares and do not have voting rights, although the holder does receive a cash payment equivalent to the dividend paid, on a one-for-one basis, on our outstanding common shares. Once the criteria is met, each restricted stock unit is payable to the holder in cash based on the market value of one share of our common stock. Accordingly, we record a liability for the restricted stock units on our balance sheet and recognize any changes in the market value during each reporting period as compensation expense.

During the nine months ended July 31, 2023 and 2022, non-employee directors received 38,704 and 36,669 restricted stock units, respectively, at a weighted-average grant date fair value of \$20.67 per share and \$22.52 per share, respectively, which vested immediately. During the nine months ended July 31, 2023, 21,774 restricted stock units, which were awarded to key employees, vested. During the nine months ended July 31, 2023, we paid \$0.4 million and \$1.0 million for the comparable prior year to settle vested restricted stock units.

Performance Share Awards

We have awarded annual grants of performance shares to key employees and officers. Performance share awards vest with return on net assets (RONA) as the vesting condition and pay out 100% in cash, and are accounted for as liability.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The expected cash settlement of the performance share award is recorded as a liability and is being marked to market over the three-year term of the award and can fluctuate depending on the number of shares ultimately expected to vest. Depending on the achievement of the performance conditions, 0% to 200% of the awarded performance shares may ultimately vest.

The following table summarizes our performance share grants and the grant date fair value for the RONA performance metrics:

| Grant Date | Shares Awarded | Grant Date Fair Value | Shares Forfeited |
|-------------------|-----------------------|------------------------------|-------------------------|
| December 2, 2020 | 65,300 | \$ 20.68 | 4,100 |
| December 9, 2021 | 80,900 | \$ 22.54 | 4,600 |
| December 7, 2022 | 89,300 | \$ 23.49 | 4,600 |

In December 2022, 101,200 shares vested pursuant to the December 2019 grant, which were settled with a cash payment of \$2.2 million.

Performance share awards are payable in cash based upon the number of performance shares ultimately earned, and are therefore not considered outstanding shares.

Performance Restricted Stock Units

We award performance restricted stock units to key employees and officers. These awards cliff vest upon a three-year service period with the absolute total shareholder return of our common stock over this three-year term as the vesting criteria. The number of shares earned is variable depending on the metric achieved, and the settlement method is 100% in our common stock, with accrued dividends paid in cash at the time of vesting, assuming the shares had been outstanding throughout the performance period.

To value the performance restricted stock units, we used a Monte Carlo simulation model to arrive at a grant-date fair value. This amount will be adjusted for forfeitures and expensed over the three-year term of the award with a credit to additional paid-in-capital. Depending on the achievement of the performance conditions, a minimum of 0% and a maximum of 150% of the awarded performance restricted stock units may vest. Specifically, the awards vest on a continuum with the following Absolute Total Shareholder Return (A-TSR) milestones:

| Vesting Level | Vesting Criteria | Percentage of Award Vested |
|----------------------|---|-----------------------------------|
| Level 1 | A-TSR greater than or equal to 50% | 150% |
| Level 2 | A-TSR less than 50% and greater than or equal to 20% | 100% |
| Level 3 | A-TSR less than 20% and greater than or equal to -20% | 50% |
| Level 4 | A-TSR less than -20% | —% |

The following table summarizes our performance restricted stock unit grants and the grant date fair value for the A-TSR performance metric:

| Grant Date | Shares Awarded | Grant Date Fair Value | Shares Forfeited |
|-------------------|-----------------------|------------------------------|-------------------------|
| December 2, 2020 | 38,400 | \$ 20.68 | 2,900 |
| December 9, 2021 | 50,900 | \$ 21.06 | 3,400 |
| December 7, 2022 | 51,500 | \$ 23.22 | 3,100 |

During the nine months ended July 31, 2023, 32,680 performance restricted stock units vested.

The performance restricted stock units are not considered outstanding shares, do not have voting rights, and are excluded from diluted weighted-average shares used to calculate earnings per share until the performance criteria is probable to result in the issuance of contingent shares. As of July 31, 2023, we have deemed 45,667 shares related to the December 2020 grant of performance restricted stock units as probable to vest.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table summarizes amounts expensed as selling, general and administrative expense related to restricted stock awards, stock options, restricted stock units, performance share awards and performance restricted stock units for the three and nine months ended July 31, 2023 and 2022 (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|------------------------------------|--------------------|-----------------|-------------------|-----------------|
| | July 31, 2023 | | July 31, 2023 | |
| | 2023 | 2022 | 2023 | 2022 |
| Restricted stock awards | \$ 356 | \$ 371 | \$ 1,258 | \$ 1,079 |
| Restricted stock units | 1,444 | 796 | 1,873 | 1,512 |
| Performance share awards | 592 | 396 | 3,934 | 2,052 |
| Performance restricted stock units | 74 | 212 | 570 | 628 |
| Total compensation expense | \$ 2,466 | \$ 1,775 | \$ 7,635 | \$ 5,271 |

Treasury Shares

We record treasury stock purchases under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. Shares are generally issued from treasury stock at the time of grant of restricted stock awards, upon the exercise of stock options, and upon the vesting of performance shares and performance restricted stock units. On the subsequent issuance of treasury shares, we record proceeds in excess of cost as an increase in additional paid in capital. A deficiency of such proceeds relative to costs would be applied to reduce paid-in-capital associated with prior issuances to the extent available, with the remainder recorded as a charge to retained earnings. There were no charges to retained earnings during the nine months ended July 31, 2023.

The following table summarizes the treasury stock activity during the nine months ended July 31, 2023:

| | Nine Months Ended July 31, 2023 |
|---|------------------------------------|
| Beginning Balance as of November 1, 2022 | 4,081,806 |
| Restricted stock awards granted | (94,700) |
| Performance restricted stock units vested | (32,680) |
| Stock options exercised | (38,800) |
| Treasury stock repurchases | 275,000 |
| Balance at July 31, 2023 | 4,190,626 |

12. Segment Information

We present three reportable business segments (1) NA Fenestration, comprising four operating segments in 2023 (compared to three operating segments in 2022) primarily focused on the fenestration market in North America including vinyl profiles, insulating glass spacers, screens, custom compound mixing, and other fenestration components; (2) EU Fenestration, comprising our U.K.-based vinyl extrusion business, manufacturing vinyl profiles & conservatories, and the European insulating glass business manufacturing insulating glass spacers; and (3) NA Cabinet Components, comprising our cabinet door and components operations. The additional NA Fenestration operating segment in 2023 is related to the Acquisition of LMI, an advanced polymer solutions provider with a focus on advanced methods for mixing rubber compounds. For additional discussion of our Acquisition of LMI, see Note 2, "Acquisition." Additionally, we maintain an Unallocated Corporate & Other which includes transaction expenses, stock-based compensation, long-term incentive awards based on the performance of our common stock and other factors, certain severance, legal, and other costs not deemed to be allocable to all segments, depreciation of corporate assets, interest expense, other, net, income taxes and inter-segment eliminations, and executive incentive compensation and medical expense fluctuations relative to planned costs as determined during the annual planning process. Other general and administrative costs associated with the corporate office are allocated to the reportable segments, based upon a relative measure of profitability in order to more accurately reflect each reportable business segment's administrative costs. We allocate corporate expenses to businesses acquired mid-year from the date of acquisition. The accounting policies of our operating segments are the same as those used to prepare the accompanying condensed consolidated financial statements. Corporate general and administrative expense allocated during the three and nine month period ended July 31, 2023 was \$6.3 million and \$17.1 million, respectively, and \$5.8 million and \$17.1 million for the comparable prior year periods.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

ASC Topic 280-10-50, “Segment Reporting” (ASC 280) permits aggregation of operating segments based on factors including, but not limited to: (1) similar nature of products serving the building products industry, primarily the fenestration business; (2) similar production processes, although there are some differences in the amount of automation amongst operating plants; (3) similar types or classes of customers, namely the primary OEMs; (4) similar distribution methods for product delivery, although the extent of the use of third-party distributors will vary amongst the businesses; (5) similar regulatory environment; and (6) converging long-term economic similarities.

Segment information for the three and nine months ended July 31, 2023 and 2022, and total assets as of July 31, 2023 and October 31, 2022 are summarized in the following table (in thousands):

| | NA Fenestration | EU Fenestration | NA Cabinet Components | Unallocated Corp. & Other | Total |
|---|-----------------|-----------------|-----------------------|---------------------------|------------|
| Three Months Ended July 31, 2023 | | | | | |
| Net sales | \$ 177,081 | \$ 67,889 | \$ 55,385 | \$ (715) | \$ 299,640 |
| Depreciation and amortization | 5,033 | 2,434 | 3,084 | 45 | 10,596 |
| Operating income | 22,668 | 16,150 | 2,271 | (3,626) | 37,463 |
| Capital expenditures | 3,201 | 2,244 | 1,744 | 187 | 7,376 |
| Three Months Ended July 31, 2022 | | | | | |
| Net sales | \$ 184,744 | \$ 67,613 | \$ 72,480 | \$ (800) | \$ 324,037 |
| Depreciation and amortization | 4,044 | 2,327 | 3,273 | 90 | 9,734 |
| Operating income (loss) | 23,086 | 9,818 | 2,329 | (1,198) | 34,035 |
| Capital expenditures | 4,166 | 621 | 916 | — | 5,703 |
| Nine Months Ended July 31, 2023 | | | | | |
| Net sales | \$ 487,036 | \$ 186,604 | \$ 163,577 | \$ (2,126) | \$ 835,091 |
| Depreciation and amortization | 15,328 | 7,135 | 8,988 | 221 | 31,672 |
| Operating income (loss) | 47,686 | 36,052 | 1,928 | (14,464) | 71,202 |
| Capital expenditures | 11,673 | 5,300 | 5,085 | 392 | 22,450 |
| Nine Months Ended July 31, 2022 | | | | | |
| Net sales | \$ 509,283 | \$ 199,954 | \$ 207,711 | \$ (2,978) | \$ 913,970 |
| Depreciation and amortization | 12,221 | 7,418 | 10,653 | 262 | 30,554 |
| Operating income (loss) | 57,458 | 30,229 | 1,444 | (6,420) | 82,711 |
| Capital expenditures | 13,103 | 2,827 | 3,488 | 70 | 19,488 |
| As of July 31, 2023 | | | | | |
| Total assets | \$ 382,783 | \$ 248,404 | \$ 159,102 | \$ 57,520 | \$ 847,809 |
| As of October 31, 2022 | | | | | |
| Total assets | \$ 279,139 | \$ 223,729 | \$ 176,154 | \$ 45,595 | \$ 724,617 |

The following table summarizes the change in the carrying amount of goodwill by reportable business segment for the nine months ended July 31, 2023 (in thousands):

| | NA Fenestration | EU Fenestration | NA Cabinet Comp. | Unallocated Corp. & Other | Total |
|---|------------------|------------------|------------------|---------------------------|-------------------|
| Balance as of October 31, 2022 | \$ 38,712 | \$ 59,996 | \$ 39,147 | \$ — | \$ 137,855 |
| LMI acquisition | 41,393 | — | — | — | 41,393 |
| Foreign currency translation adjustment | — | 7,161 | — | — | 7,161 |
| Balance as of July 31, 2023 | \$ 80,105 | \$ 67,157 | \$ 39,147 | \$ — | \$ 186,409 |

For further details of Goodwill, see Note 5, “Goodwill & Intangible Assets,” located herewith.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

We did not allocate non-operating loss or income tax benefit to the reportable segments. The following table reconciles operating income as reported above to net income for the three and nine months ended July 31, 2023 and 2022 (in thousands):

| | Three Months Ended July 31, | | Nine Months Ended July 31, | |
|--------------------|--------------------------------|------------------|-------------------------------|------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Operating income | \$ 37,463 | \$ 34,035 | \$ 71,202 | \$ 82,711 |
| Interest expense | (2,068) | (724) | (6,571) | (1,849) |
| Other, net | 402 | 398 | 591 | 905 |
| Income tax expense | (4,099) | (7,801) | (10,103) | (18,098) |
| Net income | <u>\$ 31,698</u> | <u>\$ 25,908</u> | <u>\$ 55,119</u> | <u>\$ 63,669</u> |

13. Earnings Per Share

We compute basic earnings per share by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per common and potential common shares include the weighted-average of additional shares associated with the incremental effect of dilutive employee stock options, non-vested restricted stock as determined using the treasury stock method prescribed by U.S. GAAP and contingent shares associated with performance share awards, if dilutive.

QUANEX BUILDING PRODUCTS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Basic and diluted earnings per share for the three and nine months ended July 31, 2023 and 2022 were calculated as follows (in thousands, except per share data):

| | Net Income | Weighted-Average Shares | Per Share |
|---|------------------|----------------------------|-----------|
| Three Months Ended July 31, 2023 | | | |
| Basic earnings per common share | \$ 31,698 | 32,716 | \$ 0.97 |
| <i>Effect of dilutive securities:</i> | | | |
| Stock options | — | 33 | — |
| Restricted stock awards | — | 124 | — |
| Performance restricted stock units | — | 46 | — |
| Diluted earnings per common share | <u>\$ 31,698</u> | <u>32,919</u> | \$ 0.96 |
| Three Months Ended July 31, 2022 | | | |
| Basic earnings per common share | \$ 25,908 | 32,999 | \$ 0.79 |
| <i>Effect of dilutive securities:</i> | | | |
| Stock options | — | 34 | — |
| Restricted stock awards | — | 99 | — |
| Performance restricted stock units | — | 41 | — |
| Diluted earnings per common share | <u>\$ 25,908</u> | <u>33,173</u> | \$ 0.78 |
| Nine Months Ended July 31, 2023 | | | |
| Basic earnings per common share | \$ 55,119 | 32,841 | \$ 1.68 |
| <i>Effect of dilutive securities:</i> | | | |
| Stock options | — | 30 | — |
| Restricted stock awards | — | 114 | — |
| Performance restricted stock units | — | 46 | — |
| Diluted earnings per common share | <u>\$ 55,119</u> | <u>33,031</u> | \$ 1.67 |
| Nine Months Ended July 31, 2022 | | | |
| Basic earnings per common share | \$ 63,669 | 33,093 | \$ 1.92 |
| <i>Effect of dilutive securities:</i> | | | |
| Stock options | — | 27 | — |
| Restricted stock awards | — | 95 | — |
| Performance restricted stock units | — | 41 | — |
| Diluted earnings per common share | <u>\$ 63,669</u> | <u>33,256</u> | \$ 1.91 |

We do not include equity instruments in our calculation of diluted earnings per share if those instruments would be anti-dilutive. Such dilution is dependent on the excess of the market price of our stock over the exercise price and other components of the treasury stock method. There were no anti-dilutive instruments for the three and nine months ended July 31, 2023 and 2022.

14. New Accounting Guidance

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) or other standards setting bodies that we adopt as of the specified effective date. We did not adopt any new accounting pronouncements during the three and nine months ended July 31, 2023. As of July 31, 2023, we believe the impact of any recently issued standards that are not yet effective are either not applicable to us at this time or will not have a material impact on our condensed consolidated financial statements upon adoption.

Unless the context indicates otherwise, references to “Quanex”, the “Company”, “we”, “us” and “our” refer to the consolidated business operations of Quanex Building Products Corporation and its subsidiaries.

Cautionary Note Regarding Forward-Looking Statements

Certain of the statements contained in this document and in documents incorporated by reference herein, including those made under the caption “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” are “forward-looking” statements as defined under the Private Securities Litigation Reform Act of 1995. Generally, the words “expect,” “believe,” “intend,” “estimate,” “anticipate,” “project,” “will” and similar expressions identify forward-looking statements, which generally are not historical in nature. Forward looking statements are (1) all statements which address future operating performance, (2) events or developments that we expect or anticipate will occur in the future, including statements relating to volume, sales, operating income and earnings per share, and (3) statements expressing general outlook about future operating results. Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our current projections or expectations. As and when made, we believe that these forward-looking statements are reasonable. However, caution should be taken not to place undue reliance on any such forward-looking statements since such statements speak only as of the date when made and there can be no assurance that such forward-looking statements will occur. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include, but are not limited to the following:

- impacts from public health issues (including pandemics, such as the COVID-19 pandemic and quarantines) on the economy, demand for our products or our operations, including the responses of governmental authorities to contain such public health issues;
- changes in market conditions, particularly in the new home construction, and residential remodeling and replacement (R&R) activity markets in the United States, United Kingdom, Germany and elsewhere;
- changes in non-pass-through raw material costs;
- changes in domestic and international economic conditions;
- changes in availability and prices of raw material including inflationary pressures and supply chain challenges, which could be exacerbated by political or global unrest such as the current military conflict in Ukraine;
- our ability to attract and retain skilled labor;
- changes in purchases by our principal customers;
- fluctuations in foreign currency exchange rates;
- our ability to maintain an effective system of internal controls;
- our ability to successfully implement our internal operating plans and acquisition strategies;
- our ability to successfully implement our plans with respect to information technology (IT) systems and processes;
- our ability to control costs and increase profitability;
- changes in environmental laws and regulations;
- changes in warranty obligations;
- changes in energy costs and the availability of energy;
- changes in tax laws, and interpretations thereof;
- changes in interest rates;
- our ability to service our debt facilities and remain in good standing with our lenders;
- changes in the availability or applicability of our insurance coverage;
- our ability to maintain good relationships with our suppliers, subcontractors, and key customers; and
- the resolution of litigation and other legal proceedings.

For information on additional factors that could cause actual results to differ materially, please refer to the section entitled “*Item 1A. Risk Factors*” in our Annual Report on Form 10-K for the fiscal year ended October 31, 2022.

About Third-Party Information

In this report, we rely on and refer to information regarding industry data obtained from market research, publicly available information, industry publications, U.S. government sources and other third parties. Although we believe this information is reliable, we cannot guarantee the accuracy or completeness of the information and have not independently verified it.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes as of July 31, 2023, and for the three and nine months ended July 31, 2023 and 2022, included elsewhere herein. For additional information pertaining to our business, including risk factors which should be considered before investing in our common stock, refer to our Annual Report on Form 10-K for the fiscal year ended October 31, 2022.

Our Business

We manufacture components for original equipment manufacturers (OEMs) in the building products industry. These components can be categorized as window and door (fenestration) components and kitchen and bath cabinet components. Examples of fenestration components include (1) energy-efficient flexible insulating glass spacers, (2) extruded vinyl profiles, (3) window and door screens, and (4) precision-formed metal and wood products. We also manufacture cabinet doors and other components for OEMs in the kitchen and bathroom cabinet industry. In addition, we provide certain other non-fenestration components and products, which include custom mixing, solar panel sealants, trim moldings, vinyl decking, vinyl fencing, customized compounds, water retention barriers, and conservatory roof components. We use low-cost, short lead-time production processes and engineering expertise to provide our customers with specialized products for their specific window, door, and cabinet applications. We believe these capabilities provide us with unique competitive advantages. We serve a primary customer base in North America and the U.K., and also serve customers in international markets through our operating plants in the U.K. and Germany, as well as through sales and marketing efforts in other countries.

We continue to invest in organic growth initiatives and we intend to continue evaluating business acquisitions that allow us to expand our existing fenestration and cabinet component footprint, enhance our product offerings, provide new complementary technology, enhance our leadership position within the markets we serve and expand into new markets or service lines. We have disposed of non-core businesses in the past, and continue to evaluate our business portfolio to ensure that we are investing in markets where we believe there is potential future growth.

We currently have three reportable business segments: (1) North American Fenestration segment ("NA Fenestration"), comprising four operating segments, manufacturing vinyl profiles, IG spacers, screens, custom compound mixing, and other fenestration components; (2) European Fenestration segment ("EU Fenestration"), comprising our U.K.-based vinyl extrusion business, manufacturing vinyl profiles and conservatories, and the European insulating glass business manufacturing IG spacers; and (3) North American Cabinet Components segment ("NA Cabinet Components"), comprising our North American cabinet door and components business and two wood-manufacturing plants. We maintain a grouping called Unallocated Corporate & Other, which includes transaction expenses, stock-based compensation, long-term incentive awards based on the performance of our common stock and other factors, certain severance, legal, and other costs not deemed to be allocable to all segments, depreciation of corporate assets, interest expense, other, net, income taxes and inter-segment eliminations, and executive incentive compensation and medical expense fluctuations relative to planned costs as determined during the annual planning process. Other corporate general and administrative costs have been allocated to the reportable business segments, based upon a relative measure of profitability in order to more accurately reflect each reportable business segment's administrative costs. We allocate corporate expenses to businesses acquired mid-year from the date of acquisition. The accounting policies of our operating segments are the same as those used to prepare our accompanying condensed consolidated financial statements.

Recent Transactions and Events

On November 1, 2022, we entered into an Asset Purchase Agreement with LMI and the equity owners of LMI, Lauren International, Ltd. and Meteor-US-Beteiligungs GMBH. Under the Purchase Agreement, we acquired substantially all of the operating assets comprising LMI's polymer mixing and rubber compound production business and also agreed to assume certain liabilities relating to the Acquisition. As consideration for the Purchased Assets, we paid \$91.3 million in cash utilizing funds borrowed under our Credit Facility. In connection with the Acquisition, we amended our existing finance lease with Lauren Real Estate Holding LLC for the purpose of adding an additional lease renewal option and increasing rental space by approximately 60,000 square feet of rental space which was added to the 313,595 square feet of rentable area located in Cambridge, Ohio.

U.S. and global markets are experiencing volatility and disruption following the escalation of geopolitical tensions and the military conflict between Russia and Ukraine. Although the length and impact of the ongoing military conflict is highly unpredictable, the conflict in Ukraine could lead to market or operational disruptions, including significant volatility in commodity prices, credit and capital markets, as well as supply chain interruptions. Russia, Europe's largest provider of natural gas, has significantly reduced the export of natural gas compared to the beginning of the conflict resulting in the increase in natural gas prices and the potential for natural gas shortages. If this trend continues, this would not only negatively impact our

European manufacturing facilities, this may also impact our customers and their demand for our products. We continue to monitor these situations and their impact on our business.

The war in Ukraine and the impact on the global economy including inflation and the price of raw materials, supply chain disruptions, and the volatility in interest rates including home mortgage rates are unpredictable and there may be developments outside our control requiring us to adjust our operating plan.

Market Overview and Outlook

We believe the primary drivers of our operating results continue to be North American new home construction and residential remodeling and replacement (R&R) activity. We believe that housing starts and window shipments are indicators of activity levels in the homebuilding and window industries, and we use this data, as published by or derived from third-party sources, to evaluate the market. We have evaluated the market using data from the National Association of Homebuilders (NAHB) with regard to housing starts, and published reports by Ducker Worldwide, LLC (Ducker), a consulting and research firm, with regard to window shipments in the U.S. We obtain market data from Catalina Research, a consulting and research firm, for insight into the U.S. residential wood cabinet demand.

In August 2023, the NAHB forecasted calendar-year housing starts to be 1.4 million in the 2023 and 2024 calendar-years and 1.5 million in 2025. In August 2023, the Ducker forecast indicated that total window shipments are expected to decrease 6.6% in calendar-year 2023 and increase 2.9% in 2024.

Several commodities in our business are subject to pricing fluctuations, including polyvinyl resin (PVC), titanium dioxide (TiO₂), petroleum products, aluminum and wood. For the majority of our customers and critical suppliers, we have price adjusters in place which effectively share the impact of pass-through price changes for our primary commodities with our customers commensurate with the market at large. Our long-term exposure to these price fluctuations is somewhat mitigated due to the contractual component of the adjuster programs. However, these adjusters are not in place with all customers and for all commodities, and there is a level of exposure to such volatility due to the lag associated with the timing of price updates in accordance with our customer agreements, particularly with regard to hardwoods. In addition, some of these commodities are in high demand, particularly in Europe, which can affect the cost of the raw materials, a portion of which we may not be able to fully recover.

The global economy remains uncertain due to currency devaluations, political unrest, terror threats, global pandemics such as COVID-19, and even the political landscape in the U.S. These and other macro-economic factors have impacted the global financial markets, which may have contributed to significant changes in foreign currencies. We continue to monitor our exposure to changes in exchange rates.

Results of Operations

Three Months Ended July 31, 2023 Compared to Three Months Ended July 31, 2022

| | Three Months Ended July 31, | | | |
|---|-----------------------------|------------|-------------|------------|
| | 2023 | 2022 | Change \$ | % Variance |
| | (Dollars in thousands) | | | |
| Net sales | \$ 299,640 | \$ 324,037 | \$ (24,397) | (8)% |
| Cost of sales (excluding depreciation and amortization) | 221,065 | 251,446 | (30,381) | 12 % |
| Selling, general and administrative | 30,516 | 28,822 | 1,694 | (6)% |
| Depreciation and amortization | 10,596 | 9,734 | 862 | (9)% |
| Operating income | 37,463 | 34,035 | 3,428 | 10 % |
| Interest expense | (2,068) | (724) | (1,344) | (186)% |
| Other, net | 402 | 398 | 4 | 1 % |
| Income tax expense | (4,099) | (7,801) | 3,702 | 47 % |
| Net income | \$ 31,698 | \$ 25,908 | \$ 5,790 | 22 % |

Our period-over-period results by reportable segment follow.

Changes Related to Operating Income by Reportable Segment:

NA Fenestration

| | Three Months Ended July 31, | | | |
|---|-----------------------------|------------|------------|------------|
| | 2023 | 2022 | \$ Change | % Variance |
| | (Dollars in thousands) | | | |
| Net sales | \$ 177,081 | \$ 184,744 | \$ (7,663) | (4)% |
| Cost of sales (excluding depreciation and amortization) | 135,126 | 142,970 | (7,844) | 5% |
| Selling, general and administrative | 14,254 | 14,644 | (390) | 3% |
| Depreciation and amortization | 5,033 | 4,044 | 989 | (24)% |
| Operating income | \$ 22,668 | \$ 23,086 | \$ (418) | (2)% |
| Operating income margin | 13 % | 12 % | | |

Net Sales. Net sales decreased \$7.7 million, or 4%, for the three months ended July 31, 2023 compared to the same period in 2022, which was primarily driven by a \$22.3 million decrease in volumes mainly due to softer market demand, a return to normal seasonality, and a decrease in price and raw material surcharges of \$5.2 million, partially offset by a \$19.8 million contribution from the addition of LMI in 2023.

Cost of Sales. The cost of sales decreased \$7.8 million, or 5%, for the three months ended July 31, 2023 compared to the same period in 2022. Cost of sales, including labor, decreased primarily due to lower volumes and deflation of raw materials during the period partially offset by LMI's cost of sales in 2023.

Selling, General and Administrative. Selling, general and administrative expenses decreased \$0.4 million, or 3%, for the three months ended July 31, 2023 compared to the same period in 2022 primarily due to decreases in labor costs and professional fees year-over-year.

Depreciation and Amortization. Depreciation and amortization expense increased \$1.0 million, or 24%, for the three months ended July 31, 2023 as compared to the same period in 2022, primarily due to the acquisition of LMI's property, plant and equipment and intangible assets.

EU Fenestration

| | Three Months Ended July 31, | | | |
|---|------------------------------------|-----------------|------------------|-------------------|
| | 2023 | 2022 | \$ Change | % Variance |
| | (Dollars in thousands) | | | |
| Net sales | \$ 67,889 | \$ 67,613 | \$ 276 | —% |
| Cost of sales (excluding depreciation and amortization) | 41,266 | 47,212 | (5,946) | 13% |
| Selling, general and administrative | 8,039 | 8,256 | (217) | 3% |
| Depreciation and amortization | 2,434 | 2,327 | 107 | (5)% |
| Operating income | <u>\$ 16,150</u> | <u>\$ 9,818</u> | <u>\$ 6,332</u> | 64% |
| Operating income margin | 24 % | 15 % | | |

Net Sales. Net sales increased \$0.3 million for the three months ended July 31, 2023 compared to the same period in 2022, which was primarily driven by a \$2.2 million benefit from foreign currency rate change and \$2.1 million of base price increases, partially offset by a \$4.0 million decrease in volumes largely due to softer market demand, and a return to normal seasonality.

Cost of Sales. The cost of sales decreased \$5.9 million, or 13%, for the three months ended July 31, 2023 compared to the same period in 2022. Cost of sales decreased primarily due to deflation of the price of raw materials and lower volumes partially offset by foreign currency rate changes during the period.

Selling, General and Administrative. Selling, general and administrative expense decreased \$0.2 million, or 3%, for the three months ended July 31, 2023 compared to the same period in 2022. The decrease is primarily due to a decrease in insurance expense and foreign currency impacts, partially offset by an increase in labor costs year-over-year.

NA Cabinet Components

| | Three Months Ended July 31, | | | |
|---|------------------------------------|-----------------|------------------|-------------------|
| | 2023 | 2022 | \$ Change | Variance % |
| | (Dollars in thousands) | | | |
| Net sales | \$ 55,385 | \$ 72,480 | \$ (17,095) | (24)% |
| Cost of sales (excluding depreciation and amortization) | 44,935 | 61,543 | (16,608) | 27% |
| Selling, general and administrative | 5,095 | 5,335 | (240) | 4% |
| Depreciation and amortization | 3,084 | 3,273 | (189) | 6% |
| Operating income | <u>\$ 2,271</u> | <u>\$ 2,329</u> | <u>\$ (58)</u> | (2)% |
| Operating income margin | 4 % | 3 % | | |

Net Sales. Net sales decreased \$17.1 million, or 24%, for the three months ended July 31, 2023 compared to the same period in 2022, which was driven by an \$11.5 million decrease in volumes due to softer market demand driven by weaker consumer confidence and a \$5.6 million decrease in price and raw material indexes.

Cost of Sales. Cost of sales decreased \$16.6 million, or 27%, for the three months ended July 31, 2023 compared to the same period in 2022. Cost of sales decreased primarily due to lower volumes during the period and lumber price deflation.

Selling, General and Administrative. Selling, general and administrative expense decreased \$0.2 million, or 4%, for the three months ended July 31, 2023 compared to the same period in 2022 primarily due to a decrease in labor costs year-over-year.

Depreciation and Amortization. Depreciation and amortization expense decreased \$0.2 million, or 6%, for the three months ended July 31, 2023 as compared to the same period in 2022, reflecting the run-off of depreciation expense related to existing assets.

Unallocated Corporate & Other

| | Three Months Ended July 31, | | | |
|---|-----------------------------|-------------------|-------------------|---------------|
| | 2023 | 2022 | \$ Change | Variance % |
| | (Dollars in thousands) | | | |
| Net sales | \$ (715) | \$ (800) | \$ 85 | 11% |
| Cost of sales (excluding depreciation and amortization) | (262) | (279) | 17 | (6)% |
| Selling, general and administrative | 3,128 | 587 | 2,541 | (433)% |
| Depreciation and amortization | 45 | 90 | (45) | 50% |
| Operating loss | <u>\$ (3,626)</u> | <u>\$ (1,198)</u> | <u>\$ (2,428)</u> | <u>(203)%</u> |

Net Sales. Net sales for Unallocated Corporate & Other represents the elimination of inter-segment sales for the three months ended July 31, 2023 and 2022.

Cost of Sales. Cost of sales for Unallocated Corporate & Other consists of the elimination of inter-segment sales, profit in inventory, and other costs.

Selling, General and Administrative. Selling, general and administrative expenses increased \$2.5 million, or 433%, for the three months ended July 31, 2023 compared to the same period in 2022. This increase is primarily attributable to an increase in medical claims expense and higher compensation expense including the valuations of our stock-based compensation awards during the three months ended July 31, 2023 as compared to the prior year period.

Changes related to Non-Operating Items:

Interest Expense. Interest expense increased \$1.3 million for the three months ended July 31, 2023 compared to the same period in 2022 as a result of higher borrowings outstanding during the period and an increase in interest rates.

Income Taxes. We recorded income tax expense of \$4.1 million on pre-tax income of \$35.8 million for the three months ended July 31, 2023, an effective rate of 11.5%, and income tax expense of \$7.8 million on pre-tax income of \$33.7 million for the three months ended July 31, 2022, an effective rate of 23.1%. The decrease in income tax expense year-over-year was primarily driven by a benefit for tax provision accrual to tax return filings, as well as a shift of income to lower tax jurisdictions.

Nine Months Ended July 31, 2023 Compared to Nine Months Ended July 31, 2022

| | Nine Months Ended July 31, | | | |
|---|----------------------------|------------------|-------------------|--------------|
| | 2023 | 2022 | Change \$ | % Variance |
| | (Dollars in thousands) | | | |
| Net sales | \$ 835,091 | \$ 913,970 | \$ (78,879) | (9)% |
| Cost of sales (excluding depreciation and amortization) | 637,586 | 712,931 | (75,345) | 11 % |
| Selling, general and administrative | 94,631 | 87,774 | 6,857 | (8)% |
| Depreciation and amortization | 31,672 | 30,554 | 1,118 | (4)% |
| Operating income | 71,202 | 82,711 | (11,509) | (14)% |
| Interest expense | (6,571) | (1,849) | (4,722) | (255)% |
| Other, net | 591 | 905 | (314) | (35)% |
| Income tax expense | (10,103) | (18,098) | 7,995 | 44 % |
| Net income | <u>\$ 55,119</u> | <u>\$ 63,669</u> | <u>\$ (8,550)</u> | <u>(13)%</u> |

Our period-over-period results by reportable segment follow.

Changes Related to Operating Income by Reportable Segment:
NA Fenestration

| | Nine Months Ended July 31, | | | |
|---|-----------------------------------|------------------|-------------------|-------------------|
| | 2023 | 2022 | \$ Change | % Variance |
| | (Dollars in thousands) | | | |
| Net sales | \$ 487,036 | \$ 509,283 | \$ (22,247) | (4)% |
| Cost of sales (excluding depreciation and amortization) | 382,315 | 396,505 | (14,190) | 4% |
| Selling, general and administrative | 41,707 | 43,099 | (1,392) | 3% |
| Depreciation and amortization | 15,328 | 12,221 | 3,107 | (25)% |
| Operating income | <u>\$ 47,686</u> | <u>\$ 57,458</u> | <u>\$ (9,772)</u> | <u>(17)%</u> |
| Operating income margin | 10 % | 11 % | | |

Net Sales. Net sales decreased \$22.2 million, or 4%, for the nine months ended July 31, 2023 compared to the same period in 2022, which was primarily driven by a \$70.5 million decrease in volumes mainly due to softer market demand, a return to normal seasonality, customer destocking, and a decrease in price and raw material surcharges of \$5.7 million, partially offset by a \$54.0 million contribution from the addition of LMI in 2023.

Cost of Sales. The cost of sales decreased \$14.2 million, or 4%, for the nine months ended July 31, 2023 as compared to the same period in 2022. Cost of sales, including labor, decreased primarily due to lower volumes and deflation of raw materials during the period partially offset by LMI's cost of sales in 2023.

Selling, General and Administrative. Selling, general and administrative expenses decreased \$1.4 million, or 3%, for the nine months ended July 31, 2023 as compared to the same period in 2022 primarily due to decreases in labor costs and professional fees year-over-year.

Depreciation and Amortization. Depreciation and amortization expense increased \$3.1 million, or 25%, for the nine months ended July 31, 2023 as compared to the same period in 2022, primarily due to the acquisition of LMI's property, plant and equipment and intangible assets.

EU Fenestration

| | Nine Months Ended July 31, | | | |
|---|-----------------------------------|------------------|------------------|-------------------|
| | 2023 | 2022 | \$ Change | Variance % |
| | (Dollars in thousands) | | | |
| Net sales | \$ 186,604 | \$ 199,954 | \$ (13,350) | (7)% |
| Cost of sales (excluding depreciation and amortization) | 119,421 | 138,147 | (18,726) | 14% |
| Selling, general and administrative | 23,996 | 24,160 | (164) | 1% |
| Depreciation and amortization | 7,135 | 7,418 | (283) | 4% |
| Operating income | <u>\$ 36,052</u> | <u>\$ 30,229</u> | <u>\$ 5,823</u> | <u>19%</u> |
| Operating income margin | 19 % | 15 % | | |

Net Sales. Net sales decreased \$13.4 million, or 7%, comparing the nine months ended July 31, 2023 to the same period in 2022, which was primarily driven by a \$16.1 million decrease in volumes largely due to softer market demand, a return to normal seasonality, and customer destocking, and \$8.6 million of foreign currency rate change, partially offset by \$11.3 million of base price increases.

Cost of Sales. The cost of sales decreased \$18.7 million, or 14%, for the nine months ended July 31, 2023 compared to the same period in 2022. Cost of sales decreased primarily due to a decrease in volumes, deflation in the price of raw materials and foreign currency impacts.

Selling, General and Administrative. Selling, general and administrative expense decreased \$0.2 million, or 1%, for the nine months ended July 31, 2023 compared to the same period in 2022. The decrease is primarily due to a decrease in professional fees and foreign currency impacts, partially offset by an increase in labor costs year-over-year.

NA Cabinet Components

| | Nine Months Ended July 31, | | | |
|---|-----------------------------------|-----------------|---------------|------------|
| | 2023 | 2022 | \$ Change | Variance % |
| | (Dollars in thousands) | | | |
| Net sales | \$ 163,577 | \$ 207,711 | \$ (44,134) | (21)% |
| Cost of sales (excluding depreciation and amortization) | 136,722 | 179,791 | (43,069) | 24% |
| Selling, general and administrative | 15,939 | 15,823 | 116 | (1)% |
| Depreciation and amortization | 8,988 | 10,653 | (1,665) | 16% |
| Operating income | <u>\$ 1,928</u> | <u>\$ 1,444</u> | <u>\$ 484</u> | 34% |
| Operating income margin | 1 % | 1 % | | |

Net Sales. Net sales decreased \$44.1 million, or 21%, for the nine months ended July 31, 2023 compared to the same period in 2022, which was driven by a \$40.6 million decrease in volumes due to softer market demand driven by weaker consumer confidence partially offset by a \$3.5 million decrease in raw material indexes.

Cost of Sales. Cost of sales decreased \$43.1 million, or 24%, for the nine months ended July 31, 2023 compared with the same period in 2022, primarily as a result of lower volumes year-over-year and lumber price deflation.

Selling, General and Administrative. Selling, general and administrative expense increased \$0.1 million, or 1%, for the nine months ended July 31, 2023 compared to the same period in 2022. This increase is primarily due to a the loss on an asset caused by wind damage to a manufacturing facility and an increase in professional fees partially offset by a decrease in labor costs.

Depreciation and Amortization. Depreciation and amortization expense decreased \$1.7 million, or 16%, for the nine months ended July 31, 2023 as compared to the same period in 2022, reflecting the run-off of depreciation expense related to existing assets.

Unallocated Corporate & Other

| | Nine Months Ended July 31, | | | |
|---|-----------------------------------|-------------------|-------------------|------------|
| | 2023 | 2022 | \$ Change | Variance % |
| | (Dollars in thousands) | | | |
| Net sales | \$ (2,126) | \$ (2,978) | \$ 852 | 29% |
| Cost of sales (excluding depreciation and amortization) | (872) | (1,512) | 640 | (42)% |
| Selling, general and administrative | 12,989 | 4,692 | 8,297 | (177)% |
| Depreciation and amortization | 221 | 262 | (41) | 16% |
| Operating loss | <u>\$ (14,464)</u> | <u>\$ (6,420)</u> | <u>\$ (8,044)</u> | (125)% |

Net Sales. Net sales for Unallocated Corporate & Other represents the elimination of inter-segment sales for the nine months ended July 31, 2023 and 2022.

Cost of Sales. Cost of sales for Unallocated Corporate & Other consists of the elimination of inter-segment sales, profit in inventory, and other costs.

Selling, General and Administrative. Selling, general and administrative expenses increased \$8.3 million, or 177%, for the nine months ended July 31, 2023 compared to the same period in 2022. This increase is primarily attributable to an increase in transaction fees and compensation expense including the valuations of our stock-based compensation awards during the nine months ended July 31, 2023 as compared to the prior year period.

Changes related to Non-Operating Items:

Interest Expense. Interest expense increased \$4.7 million for the nine months ended July 31, 2023 compared to the same period in 2022 as a result of higher borrowings outstanding during the period and an increase in interest rates.

Income Taxes. We recorded income tax expense of \$10.1 million on pre-tax income of \$65.2 million for the nine months ended July 31, 2023, an effective rate of 15.5%, and income tax expense of \$18.1 million on a pre-tax income of \$81.8 million for the nine months ended July 31, 2022, an effective rate of 22.1%. The decrease in income tax expense year-over-year was primarily driven by a benefit for tax provision accrual to tax return filings, as well as a shift of income to lower tax jurisdictions.

Liquidity and Capital Resources

Overview

Historically, our principal sources of funds have been cash on hand, cash flow from operations, and borrowings under our credit facilities.

We maintain a \$325.0 million revolving credit facility (the Credit Facility) that matures in 2027 (5-year term) and requires interest payments calculated at a variable market rate depending upon our Consolidated Net Leverage Ratio. The applicable rate during the nine months ended July 31, 2023 was RFR Rate + 1.25%. Our cost of capital could increase depending upon the Consolidated Net Leverage Ratio at the end of any given quarter. In addition to the Consolidated Net Leverage Ratio covenant, we are required to meet a Consolidated Interest Coverage Ratio covenant, and there are limitations on certain transactions including our ability to incur indebtedness, incur liens, dispose of material assets, acquire businesses, make restricted payments and pay dividends (limited to \$25.0 million per year). We are amortizing deferred financing fees of \$1.3 million straight-line over the remaining term of the facility. For further details of the Credit Facility, refer to Note 6, "Debt and Finance Lease Obligations" to the accompanying unaudited condensed consolidated financial statements contained elsewhere herein.

As of July 31, 2023, we had \$73.3 million of cash and equivalents, \$55.0 million outstanding under the Credit Facility, \$5.1 million of outstanding letters of credit and \$55.8 million outstanding under finance leases and other debt. Of the \$55.8 million outstanding under finance leases and other debt, \$52.9 million relates to real estate leases. We had \$264.9 million available for use under the Credit Facility at July 31, 2023.

During December 2021, our Board of Directors approved a stock repurchase program that authorized the repurchase of up to \$75.0 million worth of shares of our common stock. Repurchases under the program will be made in open market transactions or privately negotiated transactions, subject to market conditions, applicable legal requirements and other relevant factors. During the three months ended July 31, 2023, we did not purchase any shares under this program and as of July 31, 2023 we had a maximum of \$62.8 million available to purchase shares under this program. The program does not have an expiration date or a limit on the number of shares that may be purchased.

We repatriated \$30.2 million and \$18.2 million of foreign cash during the nine months ended July 31, 2023 and 2022, respectively. We expect to repatriate excess cash moving forward and use the funds to retire debt or meet current working capital needs. In the U.K., we insure against a portion of our credit losses. We believe our business model, our current cash reserves and our strong balance sheet leave us well-positioned to manage our business and remain in compliance with our debt covenants.

Analysis of Cash Flow

The following table summarizes our cash flow results for the nine months ended July 31, 2023 and 2022:

| | Nine Months Ended July 31, | |
|--|-------------------------------|-------------|
| | 2023 | 2022 |
| (Dollars in thousands) | | |
| Cash provided by operating activities | \$ 102,559 | \$ 49,854 |
| Cash used for investing activities | \$ (113,569) | \$ (19,354) |
| Cash provided by (used for) financing activities | \$ 26,687 | \$ (17,937) |

Operating Activities. Cash provided by operating activities increased \$52.7 million for the nine months ended July 31, 2023 compared to the nine months ended July 31, 2022. The increase in operating cash flows is primarily due to favorable changes to working capital partially offset by lower net income year-over-year due to a decrease in customer demand. The favorable changes in working capital were largely driven by a decrease in inventory value due to raw material price deflation and a decrease in accounts receivable partially offset by a decrease in accounts payable.

Investing Activities. Cash used for investing activities increased \$94.2 million for the nine months ended July 31, 2023 compared to the same period in 2022, primarily as a result of the Acquisition of LMI.

Financing Activities. Cash provided by financing activities was \$26.7 million for the nine months ended July 31, 2023, which included \$40.0 million of net borrowings of long-term debt, \$8.0 million of dividends paid to our shareholders, and \$5.6 million related to the purchase of treasury stock.

Liquidity Requirements

Historically, our strategy for deploying cash has been to invest in organic growth opportunities, develop our infrastructure, and explore strategic acquisitions. Other uses of cash include paying cash dividends to our shareholders and repurchasing our common stock. During the nine months ended July 31, 2023 and 2022, we repatriated \$30.2 million and \$18.2 million, respectively, of foreign earnings from our foreign locations. We maintain cash balances in foreign countries which total \$21.2 million as of July 31, 2023.

Critical Accounting Policies and Estimates

The preparation of our financial statements in accordance with accounting principles generally accepted in the U.S. (U.S. GAAP) requires us to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. Estimates and assumptions about future events and their effects cannot be perceived with certainty. Estimates may change as new events occur, as more experience is acquired, as additional information becomes available and as our operating environment changes. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, and that we believe provide a basis for making judgments about the carrying value of assets and liabilities that are not readily available through open market quotes. We must use our judgment with regard to uncertainties in order to make these estimates. Actual results could differ from these estimates.

For a description of our critical accounting policies and estimates, see our Annual Report on Form 10-K for the fiscal year ended October 31, 2022. Our critical accounting policies and estimates have not changed materially during the nine months ended July 31, 2023.

New Accounting Pronouncements

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (FASB) or other standards setting bodies that we adopt as of the specified effective date. We did not adopt any new accounting pronouncements during the three and nine months ended July 31, 2023. As of July 31, 2023, we believe the impact of any recently issued standards that are not yet effective are either not applicable to us at this time or will not have a material impact on our condensed consolidated financial statements upon adoption.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The following discussion of our exposure to various market risks contains “forward looking statements” regarding our estimates, assumptions and beliefs concerning our exposure. Although we believe these estimates and assumptions are reasonable in light of information currently available to us, we cannot provide assurance that these estimates will not materially differ from actual results due to the inherent unpredictability of interest rates, foreign currency rates and commodity prices as well as other factors. We do not use derivative financial instruments for speculative or trading purposes.

Interest Rate Risk

Our outstanding debt bears interest at variable rates and accordingly is sensitive to changes in interest rates. Based upon the balances of the variable rate debt at July 31, 2023, a hypothetical 1.0% increase or decrease in interest rates could result in approximately \$0.6 million of additional pretax charges or credit to our net income per year. This sensitivity is impacted by the amount of borrowings under our credit facilities, and amounts outstanding under finance leases.

Foreign Currency Rate Risk

Our international operations have exposure to foreign currency rate risks, primarily due to fluctuations in the Euro, the British Pound Sterling and the Canadian Dollar. From time to time, we enter into foreign exchange contracts associated with our operations to manage a portion of the foreign currency rate risk. There were no corresponding foreign currency derivatives as of July 31, 2023 or October 31, 2022. These foreign currency derivative contracts hedge cross-border intercompany and commercial activity for our insulating glass spacer business. Although these derivatives hedge our exposure to fluctuations in foreign currency rates, we do not apply hedge accounting and therefore, the change in the fair value of these foreign currency derivatives is recorded directly to other income and expense in the accompanying condensed consolidated statements of income. To the extent the gain or loss on the derivative instrument offsets the gain or loss from the re-measurement of the underlying foreign currency balance, changes in exchange rates should have no effect.

Commodity Price Risk

We purchase PVC as the significant raw material consumed in the manufacture of vinyl extrusions. We have resin adjusters in place with a majority of our customers and our resin supplier that is adjusted based upon published indices for lagging resin prices. These adjusters effectively share the base pass-through price changes of PVC with our customers commensurate with the market at large. Our long-term exposure to changes in PVC prices is somewhat mitigated due to the contractual component of the resin adjuster program. However, there is a level of exposure to short-term volatility due to timing lags.

We adjust the pricing of petroleum-based raw materials for the majority of our customers who purchase products using these materials. This is intended to offset the fluctuating cost of products which are highly correlated to the price of oil including butyl and other oil-based raw materials. This program is adjusted monthly based upon the 90-day average published price for Brent crude. The oil-based raw materials that we purchase are subject to similar pricing schemes. As such, our long-term exposure to increases in oil-based raw material prices is significantly reduced under this program.

Similarly, NA Cabinet Components includes a price index provision in the majority of its customer arrangements to insulate against significant fluctuations in the price for various hardwood products used as the primary raw material for kitchen and bathroom cabinet doors. Like our vinyl extrusion business, we are exposed to short-term volatility in wood prices due to a lag in the timing of price updates which generally could extend for up to three months.

We have begun implementing additional programs for other raw materials to facilitate more accurate pricing and reduce our exposure to changing material costs when necessary, however these are also subject to timing lags. While we maintain surcharges and other adjusters to manage our exposure to changes in the prices of our critical raw materials, we use several commodities in our business that are not covered by contractual surcharges or adjusters for which pricing can fluctuate, including PVC compound micro ingredients, silicone and other inputs. Further discussion of our industry risks is included within our Annual Report on Form 10-K for the fiscal year ended October 31, 2022.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (1934 Act) as of July 31, 2023. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of July 31, 2023, the disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There have been no changes in internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the 1934 Act) during the most recent fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting, except with regard to the internal controls of LMI which were acquired by us on November 1, 2022. Prior to the acquisition, LMI was a privately-held company incorporated in the United States, reporting financial results pursuant to accounting principles generally accepted in the United States. Therefore, LMI was not previously required to comply with the Sarbanes-Oxley Act of 2002. Management is currently evaluating internal control procedures and implementing changes in internal control over financial reporting with regard to LMI in order to fully comply with the requirements of the Sarbanes-Oxley Act of 2002 as of October 31, 2023.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

Company Risks

Bank failures or other events affecting financial institutions could adversely affect our liquidity and financial performance.

The recent and potential future disruptions in access to bank deposits or lending commitments due to bank failures and banking industry instability could materially and adversely affect the Company's liquidity, access to cash and credit, and the Company's business, financial condition and results of operations, as well those of the Company's third-party suppliers or vendors. The recent closures of Silicon Valley Bank (SVB) and Signature Bank and their placement into receivership with the Federal Deposit Insurance Company (FDIC) along with the FDIC's seizure and sale of First Republic Bank created market disruption and uncertainty with respect to the financial condition of a number of other banking institutions in the United States. While the Company does not have any direct exposure to SVB, Signature Bank, or First Republic Bank, the Company does maintain its cash at financial institutions, sometimes in balances that exceed the current FDIC insurance limits.

If other banks and financial institutions enter receivership or become insolvent in the future due to financial conditions affecting the banking system and financial markets, the Company's ability to access its cash and cash equivalents, including transferring funds, making payments or receiving funds, and the Company's access to credit, as well as those of its third-party suppliers or vendors, may be threatened and could have a material adverse effect on the Company's business and financial condition.

Item 5. Other Information

During the three months ended July 31, 2023, none of our directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of our securities to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement."

Item 6. Exhibits

The exhibits required to be furnished pursuant to Item 6 are listed in the Exhibit Index filed herewith, which Exhibit Index is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QUANEX BUILDING PRODUCTS CORPORATION

/s/ Scott M. Zuehlke

Scott M. Zuehlke

Senior Vice President - Chief Financial Officer & Treasurer
(Principal Financial Officer)

Date: September 1, 2023

EXHIBIT INDEX
Description of Exhibits

| Exhibit Number | Description of Exhibits |
|-----------------------|---|
| 3.1 | Restated Certificate of Incorporation of the Registrant dated as of March 4, 2016, filed as Exhibit 3.1 of the Registrant's Current Report on Form 8-K (Reg. No. 001-33913) as filed with the Securities and Exchange Commission on March 7, 2016, and incorporated herein by reference. |
| 3.2 | Fourth Amended and Restated Bylaws of the Registrant dated as of February 27, 2020, filed as Exhibit 3.2 of the Registrant's Quarterly Report on Form 10-Q (Reg. No. 001-33913) for the quarter ended January 31, 2020, and incorporated herein by reference. |
| 4.1 | Form of Registrant's Common Stock certificate, filed as Exhibit 4.1 of Amendment No. 1 to the Registrant's Registration Statement on Form 10-Q (Reg. No. 001-33913) as filed with the Securities and Exchange Commission on February 14, 2008, and incorporated herein by reference. |
| 4.2 | Second Amended and Restated Credit Agreement dated as of July 6, 2022, by and among the Company; the lenders party thereto; and Wells Fargo Bank, National Association, as Agent; filed as Exhibit 10.1 of the Registrant's Current Report on Form 8-K (Reg. No. 001-33913) as filed with the Securities and Exchange Commission on July 6, 2022, and incorporated herein by reference. |
| 4.3 | Asset Purchase Agreement, dated November 1, 2022, among Quanex IG Systems, Inc., LMI Custom Mixing, LLC, Lauren International, Ltd. and Meteor-US-Beteiligungs GMBH, as filed as Exhibit 2.1 of the Registrant's Current Report on Form 8-K (Reg. No. 001-33913) as filed with the Securities and Exchange Commission on November 1, 2022, and incorporated herein by reference. |
| 4.4 | First Amendment to the Amended and Completely Restated Lease Agreement by and among Quanex IG Systems, Inc. and Lauren Real Estate Holding LLC, dated November 1, 2022 as filed as Exhibit 10.1 of the Registrant's Current Report on Form 8-K (Reg. No. 001-33913) as filed with the Securities and Exchange Commission on November 1, 2022, and incorporated herein by reference. |
| 10.1 | Amendment to Quanex Building Products Corporation Restoration Plan, dated June 1, 2023, as filed as Exhibit 10.1 on Form 10-Q (Reg. No. 001-33913) as filed with the Securities and Exchange Commission on June 2, 2023, and incorporated herein by reference. |
| 10.2 | Amendment to Quanex Building Products Corporation Supplemental Employees Retirement Plan, dated June 1, 2023, as filed as Exhibit 10.2 on Form 10-Q (Reg. No. 001-33913) as filed with the Securities and Exchange Commission on June 2, 2023, and incorporated herein by reference. |
| *31.1 | Certification by chief executive officer pursuant to Rule 13a-14(a)/15d-14(a). |
| *31.2 | Certification by chief financial officer pursuant to Rule 13a-14(a)/15d-14(a). |
| *32.1 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| *101.INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| *101.SCH | XBRL Taxonomy Extension Schema Document |
| *101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| *101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| *101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| *101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

* Filed herewith

As permitted by Item 601(b)(4)(iii)(A) of Regulation S-K, the Registrant has not filed with this Quarterly Report on Form 10-Q certain instruments defining the rights of holders of long-term debt of the Registrant and its subsidiaries because the total amount of securities authorized under any of such instruments does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis. The Registrant agrees to furnish a copy of any such agreements to the Securities and Exchange Commission upon request.

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, George L. Wilson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quanex Building Products Corporation (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures [as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)] and internal control over financial reporting [as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)] for the Registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

September 1, 2023

/s/ George L. Wilson

George L. Wilson
President and Chief Executive Officer
(Principal Executive Officer)

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Scott M. Zuehlke, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Quanex Building Products Corporation (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures [as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)] and internal control over financial reporting [as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)] for the Registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

September 1, 2023

/s/ Scott M. Zuehlke

Scott M. Zuehlke
Senior Vice President - Chief Financial Officer and Treasurer
(Principal Financial Officer)

Certification Pursuant To Section 906 of the Sarbanes-Oxley Act of 2002

We hereby certify that the accompanying Quarterly Report on Form 10-Q of Quanex Building Products Corporation for the quarter ended July 31, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of Quanex Building Products Corporation.

September 1, 2023

/s/ George L. Wilson

George L. Wilson
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Scott M. Zuehlke

Scott M. Zuehlke
Senior Vice President—Chief Financial Officer and Treasurer
(Principal Financial Officer)