



## Investor Presentation

January 2021

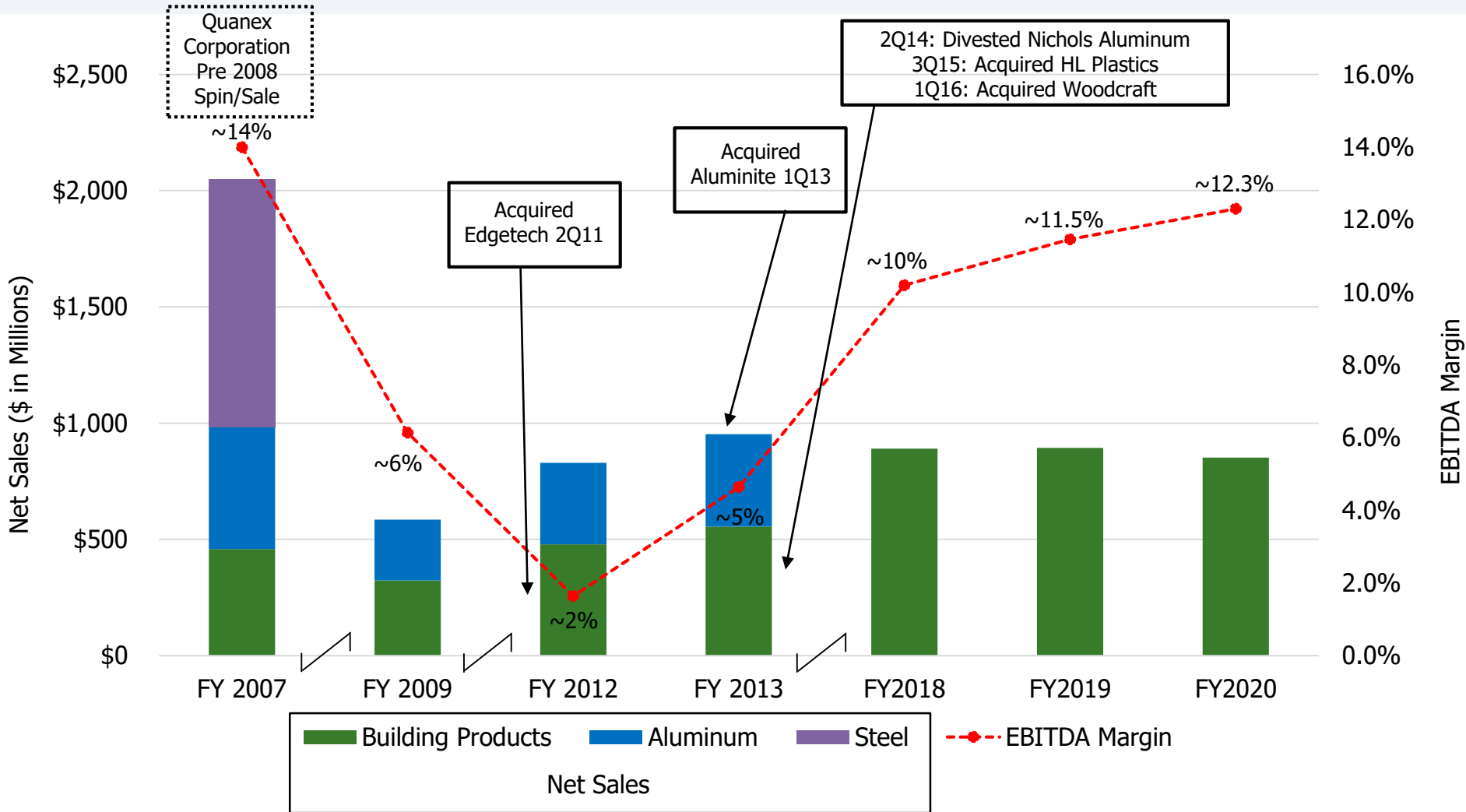
# Safe Harbor Statement

**Note on Forward Looking Statements:** Statements that use the words “estimated,” “expect,” “could,” “should,” “believe,” “will,” “might,” or similar words reflecting future expectations or beliefs are forward-looking statements. The forward-looking statements include, but are not limited to, the following: impacts from public health issues (including pandemics, such as the recent COVID-19 pandemic) on the economy and the demand for Quanex’s products, the Company’s future operating results, future financial condition, future uses of cash and other expenditures, expenses and tax rates, expectations relating to Quanex’s industry, and the Company’s future growth, including any guidance discussed in this presentation. The statements and guidance set forth in this release are based on current expectations. Actual results or events may differ materially from this release. For a complete discussion of factors that may affect Quanex’s future performance, please refer to the Company’s Annual Report on Form 10-K for the fiscal year ended October 31, 2020, and Quanex’s Quarterly Reports on Form 10-Q under the sections entitled “Cautionary Note Regarding Forward-Looking Statements” and “Risk Factors”. Any forward-looking statements in this presentation are made as of the date hereof, and the Company undertakes no obligation to update or revise any forward-looking statements to reflect new information or events.

**Note on Non-GAAP Financial Measures:** Adjusted Net Income (Loss) (defined as net income further adjusted to exclude purchase price accounting inventory step-ups, transaction costs, certain severance charges, gain/loss on the sale of fixed assets, restructuring charges, asset impairment charges, other net adjustments related to foreign currency transaction gain/loss and effective tax rates reflecting impacts of adjustments on a with and without basis) and EBITDA (defined as net income or loss before interest, taxes, depreciation and amortization and other, net, as described in the Company’s filings with the Securities and Exchange Commission) are non-GAAP financial measures that Quanex’s management uses to measure its operational performance and assist with financial decision-making. Adjusted EBITDA is EBITDA as further adjusted to exclude non-recurring items such as purchase price inventory step-ups, transaction costs, certain severance charges, gain/loss on the sale of fixed assets, restructuring charges and asset impairment charges. Free Cash Flow is a non-GAAP measure calculated using cash provided by operating activities less capital expenditures. Free Cash Flow is measured before application of certain contractual commitments (including capital lease obligations), and accordingly is not a true measure of the Company’s residual cash flow available for discretionary expenditures. Quanex believes these non-GAAP measures provide a consistent basis for comparison between periods, and will assist investors in understanding the Company’s financial performance when comparing our results to other investment opportunities. While Quanex considers Adjusted Net Income, EBITDA, Adjusted EBITDA and Free Cash Flow to be important measures of operating performance, it does not intend for this information to be considered in isolation or as a substitute for net income or other measures prepared in accordance with US GAAP. Due to the high variability and difficulty in predicting certain items that affect GAAP net income (such as unusual gains and losses, fluctuations in foreign currency exchange rates, the impact and timing of potential acquisitions or divestitures and the timing and potential significance of tax considerations), information reconciling forward-looking Adjusted EBITDA as presented to GAAP financial measures is generally not available without unreasonable effort. The presented non-GAAP measures may not be the same as those used by other companies. The Company does not intend for this information to be considered in isolation or as a substitute for other measures prepared in accordance with U.S. GAAP.

# Evolution of Quanex

## SIGNIFICANT IMPROVEMENT IN PROFITABILITY



Note: EBITDA adjusted to exclude non-recurring items referenced in Safe Harbor Statement on slide 2.

# Quanex At-A-Glance

## INDUSTRY-LEADING, "PURE PLAY" BUILDING PRODUCTS MANUFACTURER

Quanex is the **largest supplier** of components to OEMs in the building products sector. OEMs' customer base is predominately focused on serving **new construction and R&R markets**

### MANUFACTURING FACILITIES

- 31 locations (~3 million sq. ft.)
- Sufficient capacity for growth

### KEY FY20 FINANCIALS

- Net Sales: \$851.6 Million
- Net Income: \$38.5 Million
- Adjusted Net Income: \$40.7 Million
- Adjusted EBITDA: \$104.5 Million<sup>(1)</sup>
- Cash Provided by Operating Activities: \$100.8 Million
- Free Cash Flow: \$75.1 Million<sup>(2)</sup>

### CORPORATE HEADQUARTERS

Houston, Texas

### EMPLOYEES

~4,000

**~55%**  
**NA FENESTRATION**  
(~60% R&R)

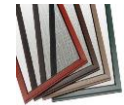
#### IG SPACERS



Super Spacer®

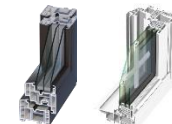
Duraseal®

#### SCREENS & OTHER



Screens

#### VINYL PROFILES



Quanex Architectural Series™ System

Quanex EnergyCore® System

**~25%**  
**NA CABINET COMPONENTS**  
(~70% R&R)



Hardwood Cabinet Door



Rigid Thermal Foil Cabinet Door



Cabinet Face Plate



Drawer Front

**~20%**  
**EU FENESTRATION**  
(~95% R&R)

#### VINYL PROFILES



Energy Efficient Vinyl Profile



Conservatory Roof Systems

#### IG SPACERS



Super Spacer®

Rigid IG Spacer

(1) Adjusted Net Income and Adjusted EBITDA excludes non-recurring items referenced in Safe Harbor Statement on slide 2.

(2) Free Cash Flow is defined as cash provided by operating activities less capital expenditures. Free Cash Flow is measured before application of certain contractual commitments (including capital lease obligations), and accordingly is not a true measure of the Company's residual cash flow available for discretionary expenditures.

# Geographic Footprint

## FACILITIES STRATEGICALLY LOCATED TO BETTER SERVE CUSTOMERS

28

U.S.

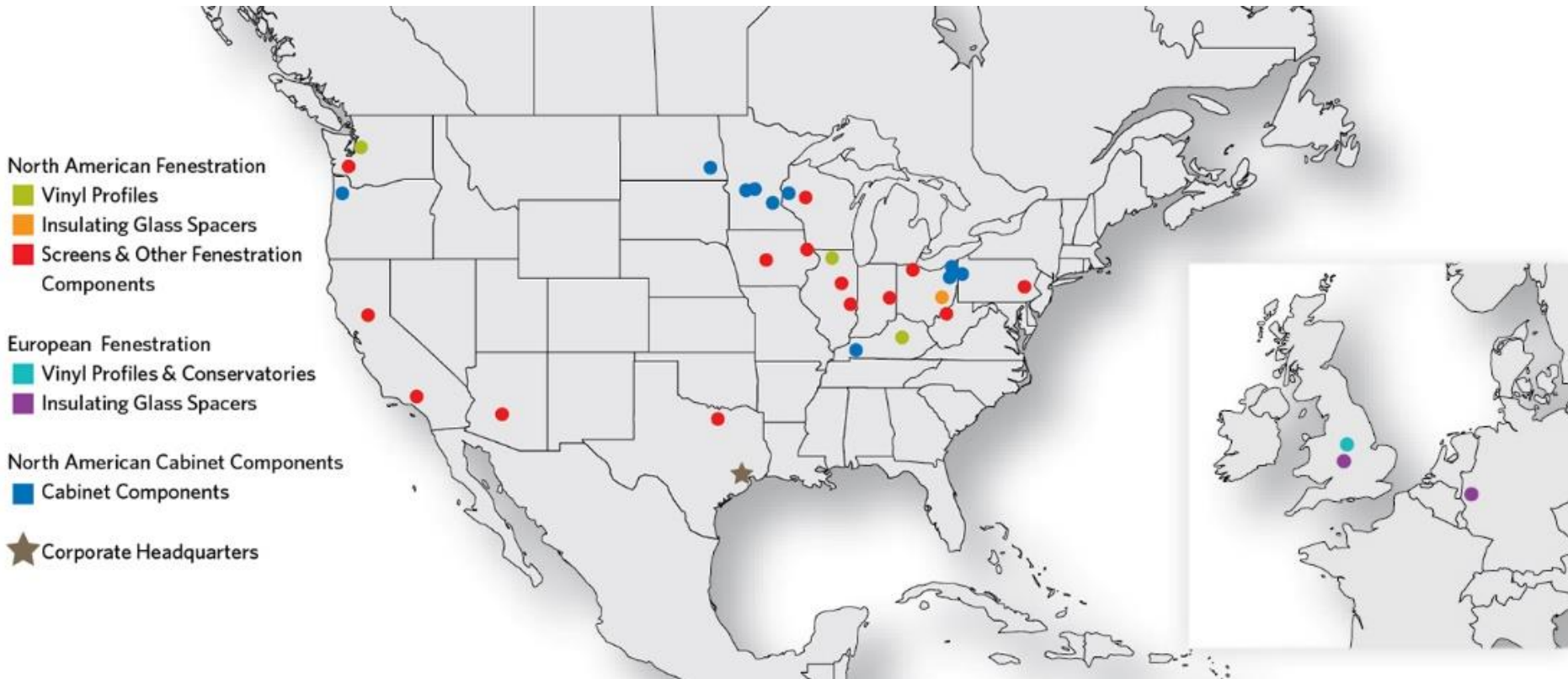
2

U.K.

1

Germany

- Facilities feature efficient plant design and flexible manufacturing processes, enabling Quanex to produce a wide variety of custom engineered products and components with short lead times
- Quanex maintains minimal levels of finished goods inventories at most locations as products are typically made to order for just-in-time (JIT) delivery



# Solid Balance Sheet with Flexible Capital Structure

## AMPLE LIQUIDITY

	<b>NX</b>
<b>Capitalization (\$ in thousands)</b>	<b>10.31.20</b>
Cash & Cash Equivalents	\$51,621
Senior Secured Revolving Credit Facility due 2023 <sup>(1)</sup>	103,000
Finance/Capital Leases and Other	15,729
<b>Total Debt</b>	<b>\$118,729</b>
<i>Net Debt</i>	<i>\$67,108</i>
Stockholders' Equity	355,759
<b>Total Capitalization</b>	<b>\$474,488</b>
Borrowing Base <sup>(1)</sup>	325,000
Less: Borrowings Against Revolving Credit Facility	103,000
Plus: Cash	51,621
<b>Total Liquidity</b>	<b>\$273,621</b>
<b>Net Debt/LTM Adj. EBITDA <sup>(2)</sup></b>	<b>0.6x</b>

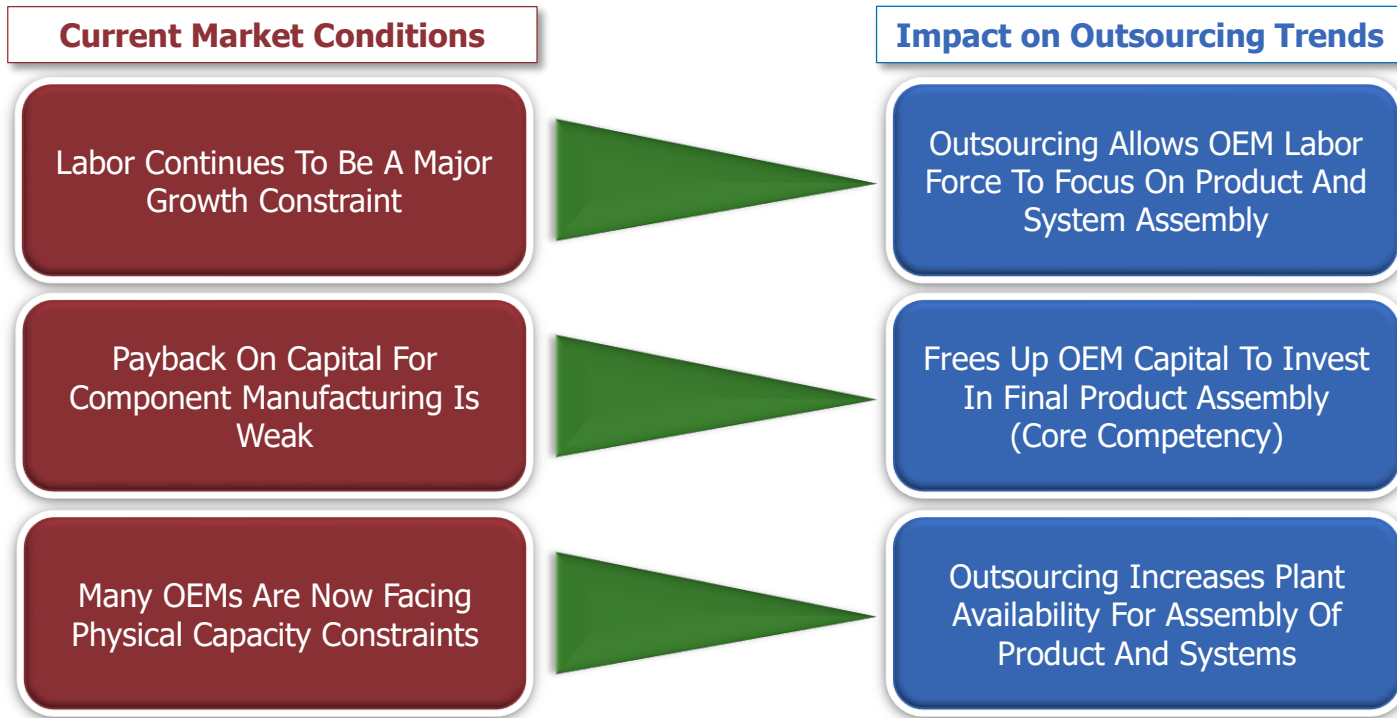
(1) Excludes outstanding letters of credit.

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

# Outsourcing Trends to Benefit Quanex

DOMESTIC WINDOW OEMs ANTICIPATED TO FAVOR COMPONENT OUTSOURCING GOING FORWARD

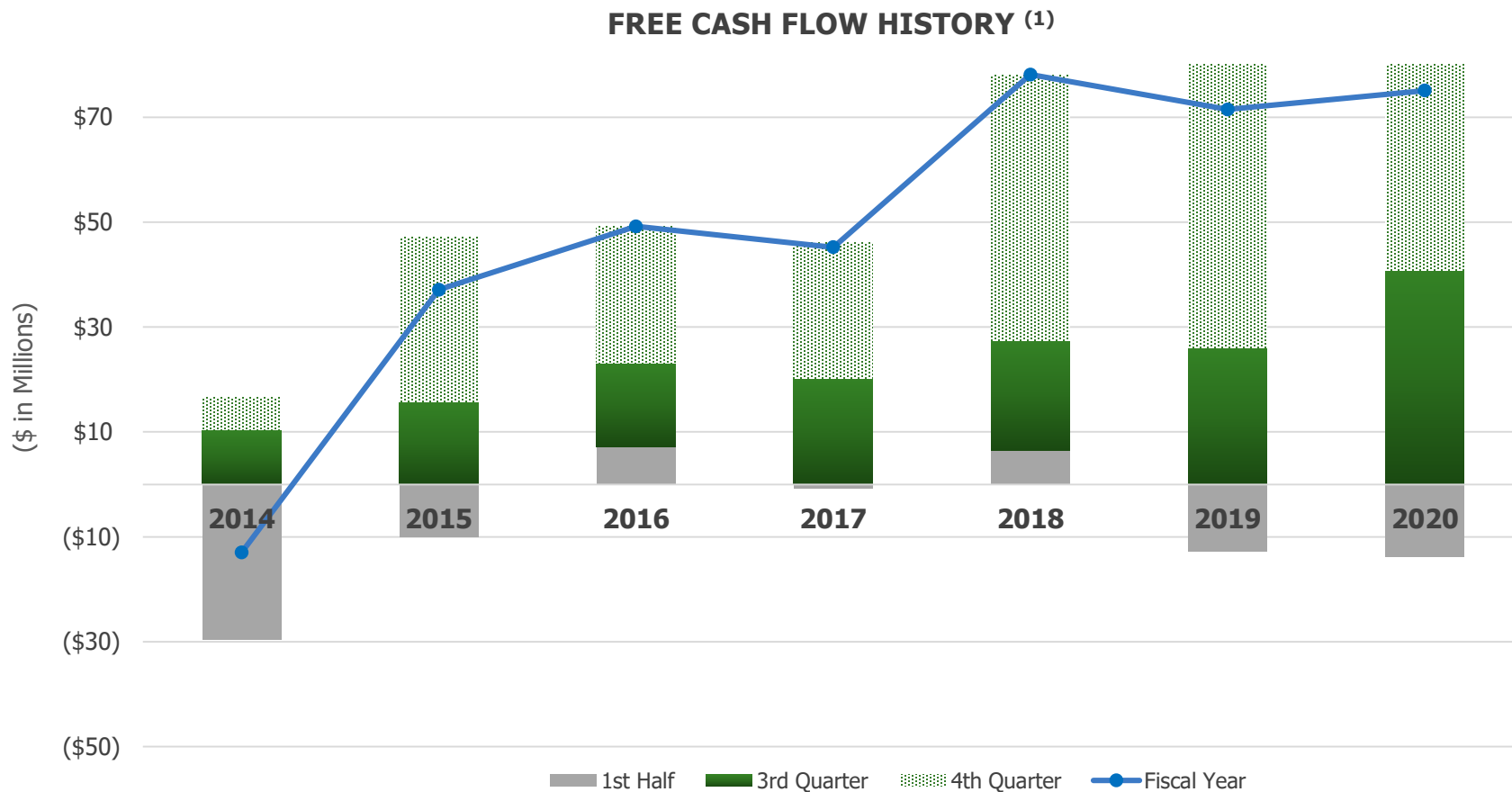
## Rationale for Expected Growth in Outsourcing Includes:



Driver For Above Market Growth In NA Fenestration Segment in FY 2021

# Favorable Free Cash Flow Trend – 2H Weighted

## FREE CASH FLOW GENERATION IS TOP PRIORITY



Note: Please reference slide 12 in the Appendix for a reconciliation of Cash provided by operating activities to Free Cash Flow.

1) Free Cash Flow is defined as cash provided by operating activities less capital expenditures. Free Cash Flow is measured before application of certain contractual commitments (including capital lease obligations), and accordingly is not a true measure of the Company's residual cash flow available for discretionary expenditures.



# 2020 Highlights & 2021 Guidance

## 2020 Highlights

- Successfully navigated COVID-19 challenges
- Consolidated Adjusted EBITDA margin expansion of ~80 basis points Y/Y
- Solid balance sheet and liquidity
- Cash Provided by Operating Activities: \$100.8 Million
- Free Cash Flow:<sup>(1)</sup> \$75.1 million (+5% Y/Y)
- Leverage Ratio:<sup>(2)</sup> 0.6x as of 10.31.20

## 2021 Guidance

**~\$900M - ~\$920M**  
Net Sales

**~\$108 - \$118M**  
Adjusted EBITDA

**~\$30M**  
Capex

**~26%**<sup>(3)</sup>  
Tax Rate

(1) Free Cash Flow is defined as cash provided by operating activities less capital expenditures. Free Cash Flow is measured before application of certain contractual commitments (including capital lease obligations), and accordingly is not a true measure of the Company's residual cash flow available for discretionary expenditures.

(2) Leverage Ratio defined as net debt/LTM Adjusted EBITDA.

(3) Tax rate guidance on an adjusted basis; adjustments may include the vesting or exercise of equity-based compensation awards, true-up of accruals and related deferred taxes from prior year filings and settled tax audits.

# Quanex: A Compelling Investment Opportunity

## EXECUTING ON STRATEGIC PRIORITIES TO DRIVE SHAREHOLDER VALUE CREATION

- ✓ Favorable residential housing tailwinds & components outsourcing trend supports opportunity to drive above market growth in key categories
- ✓ Solid balance sheet...Leverage Ratio<sup>(1)</sup> of 0.6x as of 10.31.20
- ✓ Delivering strong annual free cash flow
- ✓ Quarterly cash dividend of \$0.08/share (~2% dividend yield)
- ✓ ~\$11 million remaining under existing share repurchase program as of 10/31/20
- ✓ Ongoing focus on creating shareholder value

(1) Leverage Ratio defined as net debt/LTM Adjusted EBITDA.

# APPENDIX

# GAAP/Non-GAAP Reconciliation (Unaudited)

## FREE CASH FLOW

(\$ in thousands)	Q1	Q2	Q3	Q4	Fiscal 2014
Cash provided by operating activities	(\$11,484)	\$461	\$20,777	\$11,024	\$20,778
Capital expenditures	(\$6,748)	(\$11,849)	(\$10,429)	(\$4,753)	(\$33,779)
<b>Free Cash Flow</b>	<b>(\$18,232)</b>	<b>(\$11,388)</b>	<b>\$10,348</b>	<b>\$6,271</b>	<b>(\$13,001)</b>

(\$ in thousands)	Q1	Q2	Q3	Q4	Fiscal 2015
Cash provided by operating activities	(\$5,747)	\$9,055	\$24,241	\$39,538	\$67,087
Capital expenditures	(\$7,321)	(\$6,060)	(\$8,537)	(\$8,064)	(\$29,982)
<b>Free Cash Flow</b>	<b>(\$13,068)</b>	<b>\$2,995</b>	<b>\$15,704</b>	<b>\$31,474</b>	<b>\$37,105</b>

(\$ in thousands)	Q1	Q2	Q3	Q4	Fiscal 2016
Cash provided by operating activities	\$779	\$23,809	\$24,470	\$37,360	\$86,418
Capital expenditures	(\$8,652)	(\$8,767)	(\$8,519)	(\$11,305)	(\$37,243)
<b>Free Cash Flow</b>	<b>(\$7,873)</b>	<b>\$15,042</b>	<b>\$15,951</b>	<b>\$26,055</b>	<b>\$49,175</b>

(\$ in thousands)	Q1	Q2	Q3	Q4	Fiscal 2017
Cash provided by operating activities	\$3,081	\$13,648	\$29,736	\$33,313	\$79,778
Capital expenditures	(\$8,141)	(\$9,409)	(\$9,548)	(\$7,466)	(\$34,564)
<b>Free Cash Flow</b>	<b>(\$5,060)</b>	<b>\$4,239</b>	<b>\$20,188</b>	<b>\$25,847</b>	<b>\$45,214</b>

(\$ in thousands)	Q1	Q2	Q3	Q4	Fiscal 2018
Cash provided by operating activities	\$8,192	\$13,423	\$26,838	\$56,158	\$104,611
Capital expenditures	(\$7,811)	(\$7,402)	(\$5,885)	(\$5,386)	(\$26,484)
<b>Free Cash Flow</b>	<b>\$381</b>	<b>\$6,021</b>	<b>\$20,953</b>	<b>\$50,772</b>	<b>\$78,127</b>

(\$ in thousands)	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Fiscal 2019
Cash provided by operating activities	(\$20,243)	\$20,386	\$29,893	\$66,336	\$96,372
Capital expenditures	(\$6,271)	(\$6,751)	(\$3,962)	(\$7,899)	(\$24,883)
<b>Free Cash Flow</b>	<b>(\$26,514)</b>	<b>\$13,635</b>	<b>\$25,931</b>	<b>\$58,437</b>	<b>\$71,489</b>

(\$ in thousands)	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Fiscal 2020
Cash provided by operating activities	(\$3,657)	6,129	45,089	53,235	\$100,796
Capital expenditures	(\$9,312)	(7,001)	(4,360)	(5,053)	(\$25,726)
<b>Free Cash Flow</b>	<b>(\$12,969)</b>	<b>(\$872)</b>	<b>\$40,729</b>	<b>\$48,182</b>	<b>\$75,070</b>

# GAAP/Non-GAAP Reconciliation (Unaudited)

## ADJUSTED NET INCOME & ADJUSTED EBITDA

### Reconciliation of Adjusted Net Income and Adjusted EPS

	Three Months Ended October 31, 2020	Three Months Ended July 31, 2020	Three Months Ended April 30, 2020	Three Months Ended January 31, 2020	Total
	<b>Net Income</b>				<b>Net (Loss) Income</b>
Net income as reported	\$ 22,152	\$ 10,833	\$ 5,501	\$ 10	\$ 38,496
Reconciling items from below	(168)	280	890	1,216	2,218
Adjusted net income and adjusted EPS	<u>\$ 21,984</u>	<u>\$ 11,113</u>	<u>\$ 6,391</u>	<u>\$ 1,226</u>	<u>\$ 40,714</u>

### Reconciliation of Adjusted EBITDA

	Three Months Ended October 31, 2020	Three Months Ended July 31, 2020	Three Months Ended April 30, 2020	Three Months Ended January 31, 2020	Total
	<b>Reconciliation</b>				<b>Reconciliation</b>
Net income as reported	\$ 22,152	\$ 10,833	\$ 5,501	\$ 10	\$ 38,496
Income tax expense	4,906	4,345	2,129	424	11,804
Other, net	(164)	220	(300)	(36)	(280)
Interest expense	935	1,165	1,563	1,582	5,245
Depreciation and amortization	11,378	11,060	11,886	12,905	47,229
EBITDA	39,207	27,623	20,779	14,885	102,494
Reconciling items from below	145	73	1,031	771	2,020
Adjusted EBITDA	<u>\$ 39,352</u>	<u>\$ 27,696</u>	<u>\$ 21,810</u>	<u>\$ 15,656</u>	<u>\$ 104,514</u>

### Reconciling Items

	Three Months Ended October 31, 2020		Three Months Ended July 31, 2020		Three Months Ended April 30, 2020		Three Months Ended January 31, 2020		Total	
	Income Statement	Reconciling Items	Income Statement	Reconciling Items	Income Statement	Reconciling Items	Income Statement	Reconciling Items	Income Statement	Reconciling Items
Net sales	\$ 255,405	-	\$ 212,096	-	\$ 187,475	-	\$ 196,597	-	\$ 851,573	-
Cost of sales	189,164	-	162,427	-	149,732	-	157,427	-	658,750	-
Selling, general and administrative	26,889	-	21,973	-	16,713	(780) <sup>(1)</sup>	24,132	(618) <sup>(1)</sup>	89,707	(1,398) <sup>(1)</sup>
Restructuring charges	145	(145) <sup>(2)</sup>	73	(73) <sup>(2)</sup>	251	(251) <sup>(2)</sup>	153	(153) <sup>(2)</sup>	622	(622) <sup>(2)</sup>
Asset impairment charges	-	-	-	-	-	-	-	-	-	-
EBITDA	39,207	145	27,623	73	20,779	1,031	14,885	771	102,494	2,020
Depreciation and amortization	11,378	-	11,060	-	11,886	(237) <sup>(4)</sup>	12,905	(731) <sup>(4)</sup>	47,229	(968) <sup>(4)</sup>
Operating income	27,829	145	16,563	73	8,893	1,268	1,980	1,502	55,265	2,988
Interest expense	(935)	-	(1,165)	-	(1,563)	-	(1,582)	-	(5,245)	-
Other, net	164	(333) <sup>(5)</sup>	(220)	458 <sup>(5)</sup>	300	(128) <sup>(5)</sup>	36	60 <sup>(5)</sup>	280	57 <sup>(5)</sup>
Income before income taxes	27,058	(188)	15,178	531	7,630	1,140	434	1,562	50,300	3,045
Income tax expense	(4,906)	20 <sup>(6)</sup>	(4,345)	(251) <sup>(6)</sup>	(2,129)	(250) <sup>(6)</sup>	(424)	(346) <sup>(6)</sup>	(11,804)	(827) <sup>(6)</sup>
Net income	<u>\$ 22,152</u>	<u>\$ (168)</u>	<u>\$ 10,833</u>	<u>\$ 280</u>	<u>\$ 5,501</u>	<u>\$ 890</u>	<u>\$ 10</u>	<u>\$ 1,216</u>	<u>\$ 38,496</u>	<u>\$ 2,218</u>

### Reconciliation of Free Cash Flows

	Three Months Ended October 31, 2020	Three Months Ended July 31, 2020	Three Months Ended April 30, 2020	Three Months Ended January 31, 2020	Total
Cash provided by (used in) operating activities	\$ 53,235	\$ 45,089	\$ 6,129	\$ (3,657)	\$ 100,796
Capital expenditures	(5,053)	(4,360)	(7,001)	(9,312)	(25,726)
<b>Free Cash Flow</b>	<u>\$ 48,182</u>	<u>\$ 40,729</u>	<u>\$ (872)</u>	<u>\$ (12,969)</u>	<u>\$ 75,070</u>

(1) Transaction and advisory fees, executive severance charges, severance charges related to a reorganization, and loss on the sale of a plant.

(2) Restructuring charges relate to the closure of manufacturing plant facilities.

(3) Asset impairment charges relate to goodwill impairment in the North American Cabinet Components segment.

(4) Accelerated depreciation for certain projects and/or plant closures.

(5) Foreign currency transaction impacts.

(6) Impact on a with and without basis.

# Executive Compensation

## ALIGNED WITH SHAREHOLDERS

### Performance-based compensation philosophy at target

- Base salary targeted at market 50<sup>th</sup> percentile
- Annual incentive award based on specific metrics
- Long-term incentives as referenced below

### 2021 Annual Incentive Award

- 40% weighting on Revenue growth
- 40% weighting on EBITDA growth
- 20% weighting on working capital as a percentage of revenue (quarterly average)

### 2021 Long-Term Incentive (~70% performance based - shareholder alignment)

- Performance Shares: 40% weighting (3-year performance period)
  - 100% Return on Net Assets (RONA)
  - Payout 100% cash
- Performance Restricted Stock Units: 30% weighting (3-year performance period)
  - Final payout based on Absolute Total Shareholder Return (ATSR)
  - Payout 100% common stock
- Restricted Stock: 30% weighting

### Shareholder approval of ~97%+ since implementing Say-on-Pay

## **Investor Contact:**

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