Bigger, Better, Stronger

FISCAL 2015 IN REVIEW

2015 was a very satisfying and successful year for Quanex, both operationally and strategically. Operationally, gross margins in our legacy business improved approximately 100 basis points and we more than tripled cash provided by operating activities. Strategically, the highlights of the year were the addition of HLP in June, and the addition of Woodcraft Industries two days after our fiscal year closed.

HL Plastics is the UK's fastest growing vinyl profile extruder, and has the most technologically advanced window system in that market. The addition of HL Plastics expands our position in the core western European market, which is enjoying stable growth in the early stages of a residential housing recovery.

Woodcraft is a leading provider of hardwood and engineered wood cabinet doors and components to kitchen and bath cabinet OEMs throughout the United States. This industry is less seasonal, is expected to grow faster, and is generally more profitable than the fenestration market where we have been traditionally focused.

These two new additions to the Quanex team effectively replaced the revenues of Nichols Aluminum, which we divested in 2014 in the first step of our strategic transformation, but at a much higher level of profitability. In fact, assuming we had owned both HL Plastics and Woodcraft for all of 2015, pro-forma revenues would have been approximately $935 million with pro-forma EBITDA of approximately $105 million, excluding transaction costs. Prior to divesting Nichols our reported 2013 revenues were $952.6 million and EBITDA was $42.8 million. Thus, EBITDA improved two and a half times on similar revenues. Also EBITDA margins improved from 4.5% in 2013 to 11.2% in 2015 on a pro-forma basis. This improved profitability puts us well on the way to our stated goal of 15% EBITDA margins.

We closed the fiscal year with net debt of $34.3 million after paying down $42 million of the $92 million borrowed to finance the HL Plastics acquisition. The Woodcraft acquisition added an incremental $270.5 million of debt for a post-acquisition net debt level of $305 million. This represents a comfortable pro-forma debt to EBITDA leverage ratio of 2.9 times. Our primary focus will be to continue to generate strong cash flow through profitable growth and margin enhancement with the intent to reduce our leverage ratio to below 2.5 times by the end of fiscal 2016.

"We believe that Quanex's 2016 revenue will approach a billion dollars, and at that level we expect EBITDA to be between $112 million and $120 million."

FISCAL 2016 OUTLOOK

Looking forward to 2016, all economic forecasts are once again predicting very optimistic growth rates for the housing industry, and all indicate that 2016 will be much stronger than 2015. Our view is slightly more conservative, with an expectation that 2016 will be very similar to 2015. Specifically, we expect to experience growth of 5-6% in the North American fenestration market, 6% growth in US cabinets and 7-8% in our core European markets, which on a total company basis results in 5-6% overall growth. If in fact the early economic forecasts prove to be true and any or all market segments experience higher actual growth, we would expect to see a similar improvement in our revenues.

Based on our conservative view of 5% to 6% growth, we believe that Quanex's 2016 revenue will approach a billion dollars, and at that level we expect EBITDA to be between $112 million and $120 million, excluding transaction costs and purchase accounting impacts. More importantly, we believe that we will be able to generate sufficient cash flow to re-invest $45 million of capital back into the business and still reduce our leverage ratio to below 2.5 times. Included in the capital spend is an incremental $10 million above our annual base capital level. The incremental investments are being made to facilitate future above market growth in addition to cost savings initiatives being driven by investments in automation.

In 2016 you will see us continue to work on improving margins and generating cash to pay down debt. We will continue to look at "bolt on" acquisitions, but we will not significantly increase our leverage ratio without a clear path to reducing it to below 2.5 times in reasonably short order.

We are not done with our strategic transformation, and we will continue our efforts to turn Quanex into a bigger, better and more profitable company. Thank you for your continued support.

Bill Griffiths

Chairman, President and

Chief Executive Officer