

Quanex Building Products CORP  
Form 10-K  
December 11, 2018

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

FORM 10-K  
(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Fiscal Year Ended October 31, 2018

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

Commission file number 1-33913

QUANEX BUILDING PRODUCTS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 26-1561397  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)  
1800 West Loop South, Suite 1500, Houston, Texas 77027  
(Address of principal executive offices) (Zip code)

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

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

Title of each class Name of each exchange on which registered

Common Stock, \$0.01 par value New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition 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  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of April 30, 2018, computed by reference to the closing price for the Common Stock on the New York Stock Exchange, Inc. on that date, was \$593,689,919. Such calculation assumes only the registrant's officers and directors at such date were affiliates of the registrant.

At December 7, 2018 there were outstanding 33,500,953 shares of the registrant's Common Stock, \$0.01 par value.

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**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive Proxy Statement for its 2019 Annual Meeting of Stockholders to be filed with the Commission within 120 days of October 31, 2018 are incorporated herein by reference in Part III of this Annual Report on Form 10-K.

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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:

- 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 and Germany;
- changes in non-pass-through raw material costs;
- changes in domestic and international economic conditions;
- 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;
- 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.

Additional factors that could cause actual results to differ materially are discussed under "Item 1A. Risk Factors" included elsewhere in this Annual Report on Form 10-K.

#### 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, United States 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.

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PART I

Item 1. Business (Continuing Operations).

Our Company

Quanex was incorporated in Delaware on December 12, 2007, as Quanex Building Products Corporation. We manufacture components for original equipment manufacturers (OEM) 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. In addition, we provide certain other non-fenestration components and products, which include solar panel sealants, trim moldings, vinyl decking, fencing, water retention barriers, and conservatory roof components. We use low-cost 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, and also serve customers in international markets through our operating plants in the United Kingdom and Germany, as well as through sales and marketing efforts in other countries.

Our History

Our predecessor company, Quanex Corporation, was organized in Michigan in 1927 as Michigan Seamless Tube Company, and was later reincorporated in Delaware in 1968. In 1977, Michigan Seamless Tube Company changed its name to Quanex Corporation. On December 12, 2007, Quanex Building Products Corporation was incorporated as a wholly-owned subsidiary in the state of Delaware, in order to facilitate the separation of Quanex Corporation's vehicular products and building products businesses. This separation became effective on April 23, 2008, through a spin-off of the building products business to Quanex Corporation's then-existing shareholders. Immediately following the spin-off, our former parent company, consisting principally of the vehicular products business and all non-building products related corporate accounts, merged with a wholly-owned subsidiary of Gerdau S.A.

Since the spin-off in 2008, we have evolved our business by making investments in organic growth initiatives and taking a disciplined approach to new business and strategic acquisition opportunities, while disposing of non-core businesses.

Notable developments and transactions which occurred since the spin-off include the following:

in March 2011, we acquired Edgetech, I.G. Inc. and its German subsidiary, which provided us with three manufacturing facilities, one each in the United States, United Kingdom and Germany, that produce and market a full line of flexible insulating glass spacer systems for window and door customers in North America and abroad. This acquisition complemented our then existing insulating glass products business in the United States and, as a result, we committed to a plan to consolidate these facilities in November 2011. This consolidation plan, in part, resulted in the closure of a plant in Barbourville, Kentucky, and the relocation of equipment that was used to manufacture the single seal, warm-edge spacer system to our facility in Cambridge, Ohio. This consolidation was substantially completed by August 2012, with minor residual cash payments and program costs incurred during fiscal 2013. We sold the facility in Barbourville in May 2014;

in December 2012, we acquired substantially all of the assets of Alumco Inc. and its subsidiaries (Alumco), an aluminum screen manufacturer, which allowed us to expand the scope of our fenestration business to include screens for vinyl window and door manufacturers and to expand our geographic reach throughout the United States;

in April 2014, we sold our interest in a limited liability company which held the net assets of our Nichols Aluminum business to a privately held company that provides aluminum rolled products and extrusions, aluminum recycling and specification aluminum alloy production;

in June 2015, we acquired the outstanding ownership shares of Flamstead Holdings Limited, an extruder of vinyl lineal products and manufacturer of other plastic products incorporated and registered in England and Wales.

Following a pre-sale reorganization and purchase, Flamstead Holdings Limited owned 100% of the ownership shares of the following subsidiaries: HL Plastics Limited, Vintage Windows Limited, Wegoma Machinery Sales Limited (renamed in 2016 as Avantek Machinery Company), and Liniar Limited (collectively referred to as "HLP"), each registered in England and Wales. This acquisition expanded our vinyl extrusion product offerings and expanded our

international presence in the global fenestration business;  
in November 2015, we completed the merger of QWMS, Inc., a Delaware corporation which was a newly-formed and wholly-owned Quanex subsidiary, and WII Holding, Inc. (WII), a Delaware corporation. Upon satisfaction or waiver of

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conditions set forth in the merger agreement, QWMS, Inc. merged with and into WII, and WII became our wholly-owned subsidiary, and, as a result, we acquired all the subsidiaries of WII (referred to collectively as Woodcraft). Woodcraft is a manufacturer of cabinet doors and other components for OEMs in the kitchen and bathroom cabinet industry, operating various plants in the United States and Mexico; in October 2016, we committed to a restructuring plan that included the closure of two vinyl extrusion plants in the United States and our kitchen and bathroom cabinet door plant in Guadalajara, Mexico; and in September 2017, we closed a kitchen and bathroom cabinet door plant in Lansing, Kansas, and, in October 2017, sold a wood-flooring business in Shawano, Wisconsin.

As of October 31, 2018, we operated 34 manufacturing facilities located in 17 states in the United States, two facilities in the United Kingdom, and one in Germany. These facilities feature efficient plant design and flexible manufacturing processes, enabling us to produce a wide variety of custom engineered products and components primarily focused on the window and door segment of the residential building products markets. We are able to maintain minimal levels of finished goods inventories at most locations because we typically manufacture products upon order to customer specifications. We believe the primary drivers of our operating results are residential remodeling and replacement activity and new home construction in the markets we serve.

**Our Industry**

Our business is largely North American based and dependent upon the spending and growth activity levels of our customers which include national and regional residential window, door and cabinet manufacturers. Our international presence includes vinyl extruded lineals for house systems to smaller customers primarily in the United Kingdom, as well as our insulating glass business in the United Kingdom and Germany.

We use data related to housing starts and window shipments in the United States, as published by or derived from third-party sources, to evaluate the fenestration market in these countries. We also use data related to cabinet demand in the United States to evaluate the residential cabinet market.

The following table presents calendar-year annual housing starts information as of October 2018, as published by the United States Census Bureau based on data collected from the National Association of Home Builders (NAHB), (units in thousands):

Period	Single-family		Multi-family		Manufactured		Total Units
	Units	% Change	Units	% Change	Units	% Change	
Annual Data							
2012	537	N/A	247	N/A	55	N/A	839
2013	620	15%	308	25%	60	9%	988
2014	647	4%	355	15%	64	7%	1,066
2015	713	10%	394	11%	71	11%	1,178
2016	785	10%	393	—%	81	14%	1,259
2017	852	9%	356	(9)%	93	15%	1,301
Annual Data - Forecast							
2018	885	4%	383	8%	105		