

Trex Company Inc.

Second Quarter 2017 Earnings Conference
Call

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CORPORATE PARTICIPANTS

Jim Cline - *President, Chief Executive Officer*

Bryan Fairbanks - *Vice President, Chief Financial Officer*

Bill Gupp - *Senior Vice President, General Counsel and Secretary*

Viktoriiia Nakhla - *Investor Relation*

PRESENTATION

Operator

Good afternoon and welcome to the Trex Company Second Quarter 2017 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your telephone keypad, to withdraw your question, please press "*" then "2." Please note this event is being recorded.

I would now like to turn the conference over to Viktoriia Nakhla. Please go ahead.

Viktoriia Nakhla

Thank you, everyone, for joining us today. With us on the call are Jim Cline, President and Chief Executive Officer and Bryan Fairbanks, Vice President and Chief Financial Officer. Joining Jim and Bryan will be Bill Gupp, Senior Vice President, General Counsel and Secretary, as well as other members of Trex management.

The company issued a press release today after market close, containing financial results for the second quarter of 2017. This release is available on the company's website. This conference call is also being webcasted on the investor relations page of the company's website where it will be available for 30 days.

I would now like to turn the call over to Bill Gupp. Bill?

Bill Gupp

Thank you, Viktoriia. Before we begin, let me remind everyone that statements on this call regarding the company's expected future performance and conditions constitute forward-looking statements within the meaning of Federal Securities Law. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements.

For a discussion of such risks and uncertainties, please see our most recent Form 10-K and Form 10-Q, as well as, our 1933 and other 1934 Act filings with the SEC. The company expressly disclaims any obligation to update or revise publicly any forward-looking statements whether as a result of new information, future events or otherwise.

With that information, I will turn the call over to Jim Cline.

Jim Cline

Thank you, Bill, and thank you all for joining us this afternoon. We will be brief in our review of the second quarter results to make sure that we leave enough time to fully discuss our acquisition of the SC Company.

Second quarter represents our seventh consecutive quarter of record revenue year-over-year, a strong indication that the consumers continue to recognize an excellent value of Trex products. Our unique combination of customized, aesthetically pleasing design for their outdoor living spaces paired with the low-maintenance benefits that our decking and railing products provide is clearly being received well by consumers.

Our second quarter sales of decking and railing products increased 10% year-over-year. We believe this is a clear indication that our advertising campaign to capture share from wood is resonating with our target audience.

The second quarter was also a period of strong execution, resulting in a 370 basis point year-over-year expansion in gross margin. Fast-return projects to streamline production processes and reduce our input costs have methodically reduced manufacturing costs while sales growth has driven increased capacity utilization, combining to drive significant operating leverage.

As we have discussed previously, we continue to build our R&D capabilities, invest in targeted marketing and advertising campaigns and create tools that facilitate visualization, design and build for both consumer and the trade. This continues to support our market share expansion.

Our first-half results also include double-digit growth from markets outside of North America; this has been driven by our expanded brand campaign and stocking dealer expansion. To sum it up, Trex's year-to-date performance has set the stage for a strong 2017 for our core business.

I will now turn the call over to Bryan for the financial review of the quarter before coming back to discuss our acquisition of SC Company. Bryan?

Bryan Fairbanks

Thank you, Jim. I will start with our second quarter and first half 2017 financial results and then both Jim and I will follow with additional color and key financial aspects on the acquisition we announced today after the market closed.

We are pleased to report on another record quarter with net sales amounting to \$158 million. This 8% year-on-year top line growth was mainly driven by a 10% increase in our decking and railing business, as we sold significantly less excess polyethylene film than we did last year, as we were using it internally to accommodate strong demand.

We continue to benefit from the investments in our cost savings programs, resulting in a 17% year-on-year increase in gross profit to \$72 million and a 370 basis point expansion in gross margin to 45.6%.

The improvement was achieved primarily through continued focus on manufacturing efficiency programs, lower cost raw materials and improved capacity utilization. We expect to continue to see the benefits from our ongoing manufacturing cost efficiencies and from increased capacity utilization as we scale the business.

SG&A for the quarter amounted to \$27.2 million up 10% from the 2016 second quarter in absolute dollars due primarily to increased branding and marketing expenses. As a percentage of revenues, SG&A remained relatively stable year-on-year, moving to 17.2% from 16.9%.

For the full year, we expect SG&A as a percentage of revenues to be consistent with last year's 17.3%. The tax rate in the year's second quarter was 35.4% compared to 34.4% in the 2016 second quarter and in line with our full-year guidance of approximately 35%.

We had a strong finish to the quarter with record net income of \$28.8 million, a 22% year-on-year increase. Diluted earnings per share were up 21% to \$0.97. As a reminder, last year's second quarter net income of \$23.7 million or \$0.80 per diluted share has been adjusted to

reflect our adoption of the new FASB tax treatment related to employee share based payment accounting.

To briefly sum up our performance for the first six months of 2017, we successfully converted 9% overall increase in net sales into a 20% increase of net income which amounted to \$56.7 million or \$1.92 of diluted earnings per share.

Now, I would like to turn the call back to Jim, so he can provide insight into the strategic thinking behind the SC Company acquisition. Thank you. Jim?

Jim Cline

Thanks, Bryan. Now, to the acquisition of SC Company. We closed on this acquisition today and we believe it will be an important growth catalyst for Trex. SC Company is the leading manufacturer and supplier of custom architectural railing and staging solutions in the country. Over the last five years, their sales growth has significantly exceeded Trex's, their architectural and aluminum railing systems are generally used in stadiums, arenas, commercial buildings, high-rise residential and commercial structures.

Their high profile projects include, Madison Square Garden, SunTrust Park, Target Field, Cowboys Stadium, as well as NASA, Marshall Space Flight Center in Huntsville, US Coast Guard headquarters in DC, and the list goes on and on. The size of the total market that they currently address is approximately \$1 billion.

This acquisition significantly expands and diversifies Trex's market opportunities in a growing commercial sector, an area that we have been interested in for some time. Today, you can find Trex in numerous commercial projects, such as, outdoor seating in restaurants and resorts and in recovery projects following Hurricane Sandy, for example.

SC Company will form the foundation for a new subsidiary, Trex Commercial Products, that will expand our market presence by focusing on commercial contractors, architects and specifiers, channels in which SC has tremendous credibility and relationships.

Sales related to commercial projects have been and will continue to be somewhat lumpy quarter-to-quarter, as well as, year-to-year, as they can be significantly impacted by the timing of major projects.

Commercial projects provide excellent future visibility due to the significant backlog. The typical lead time of projects ranges from six months to 24 months.

There are numerous ways in which we expect to achieve revenue synergies. In addition to expanding access to commercial projects for Trex, we will be supporting a key SC growth initiative, namely their unique opportunity to offer a full service partnership to contractors by providing all the design, engineering and product installation specifications for commercial railing products.

No one else in this fragmented commercial railing market has the capability to provide this type of turnkey approach which has been very well received by both architects and contractors.

SC Company's custom design and engineering capabilities are another important benefit from this acquisition, as we expect to leverage their deep expertise in railing development for Trex consumer railing products, especially those that address a high end market.

In terms of operating synergies, there will be benefits from scale and procuring raw materials, ensuring manufacturing technology. The SC Company transaction is emblematic of the acquisition strategy that we developed about a year and a half ago to complement Trex's substantial organic growth. We have been looking for the right opportunities to leverage the strength of the Trex brand by adding related products to our portfolio, expanding into adjacent markets, entering in new geographies.

The most important criteria for us, however, is culture, and with SC Company we have an excellent fit. In our evaluation, we found an exceptionally strong and focused management team who shares our commitment to quality and state-of-the-art design. And like Trex, has fostered a culture of continuous improvement. We look forward to working together to increase our share of an expanding market.

Now, Bryan will go over the financial aspects of the transaction.

Bryan Fairbanks

Great, thanks, Jim. Some of the key financial aspects of this transaction, SC Company is projected to have annual revenues of \$56 million in 2017. The closing purchase price is \$71.5 million which is subject to a working capital adjustment after close. The transaction will be immediately accretive to EBITDA. We will have a better picture of the impact on diluted EPS once the balance sheet valuation is complete during the third quarter.

Effective in the third quarter, we will report on SC Company as a separate segment under the title Trex Commercial Products. Keep in mind that this business has very little seasonality, but it can be uneven from quarter-to-quarter and year-to-year based on the timing of large projects. For 2018, we anticipate that this segment will grow at a faster rate than our historical rate for Trex decking and railing.

For the last three years, gross margins have averaged in low 20s, while SG&A has benefited from sales leverage and averages in the low teens.

As Jim mentioned, we have identified several ways to enhance gross margin, particularly around the scale that Trex brings to the procurement process and sharing of successful programs that we have implemented to save production costs. We also expect to leverage down SG&A, as the company continues to grow revenue.

Lastly, inclusive of the acquisition for the last five months of 2017, we estimate consolidated incremental margins to be in excess of 50% for the year.

We expect our consolidated revenue for this year's third quarter to be \$126 million, comprised of \$117 million from our legacy Trex business which represents 10% year-on-year growth and a two month revenue contribution from Trex Commercial Products business which is expected to amount to approximately \$9 million.

More information regarding SC Company can be found at www.trexcommercialproducts.com, which will have links to the SC Company website.

With that, I would like to turn the call back to Jim for his summary comments.

Jim Cline

Thanks, Bryan. As you have heard, we are very enthusiastic about Trex's future growth prospects. Based on our current forecasts, we are looking at organic revenue growth for the first nine months of 2017 of a little over 10%, plus the contribution from Trex Commercial Products.

What I would like to do now is open the call up for questions.

QUESTION AND ANSWER**Operator**

We will now begin the question and answer session. To ask a question, you may press "*" then "1" on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys, to withdraw your question, please press "*" then "2."

The first question comes from Trey Grooms with Stephens. Please go ahead.

Trey Grooms

Hi, good afternoon, guys.

Jim Cline

Good afternoon, Trey.

Trey Grooms

Hey, and also congrats on a nice quarter again. If you were looking at the gross margin guidance that you gave just a bit ago, it sounds like you reiterated what you said before at least on the incremental. I think the last guide was very similar in nature to something above 50%. Given what we have seen in the first half of the year, you know, is there any way that we could, maybe get a little bit more specific on the range there for the back half? It suggests that you could have incrementals come way, way, way down which I wouldn't expect, but and still hit that. So it seems like that. If you could just give us any more color. That's all I am asking?

Bryan Fairbanks

Yes. Sure, Trey. No problem, so we did talk about the incrementals being 50% on a full year basis inclusive of the acquisition. You have seen our incrementals through the first half of the year have been significantly ahead of that without the acquisition. I expect that incremental number would be slightly in excess of 60%, if we excluded that piece of it. So I think with that breakdown, I can be able to model what you are looking for.

Trey Grooms

Yes. Okay, that was super helpful. Thank you. And then, on the acquisition, just real quick, I know you guys are expecting faster than historical Trex growth. But in that market, just not being very familiar with it, is most of their growth being driven more from the multifamily, commercial railing market or is it more on the stadium seating side? Just a little bit more color there?

Bryan Fairbanks

We don't plan to get into breaking down the revenues by the various areas that they are involved with, be it the stadium or the commercial buildings side of it. They have an overall balanced revenue profile for the company and we see opportunities to grow each one of those areas.

Trey Grooms

Okay. What about on the backlog that you mentioned that revenues could be lumpy from time-to-time? As we look at the backlog, you have given us \$56 million of revs. But you have an outlook. You said that the lead time is usually six to 24 months. So as we look out into that backlog, when you think about the lumpy nature of it, is there any way you can help us on the timing of that as we look forward?

Jim Cline

Well, that's one of the issues that you have in the commercial business, and we saw this to a certain degree with the Hurricane Sandy business. It came in lumps, so as contracts are completed, you see that revenue hitting. And, for example, there can be events where stadiums are pushed out, the completions are pushed out, and therefore the railing portion of that stadium gets pushed out also. So it is going to create our numbers to be a little bit more lumpy when it comes to the commercial side of it. We should be able to give reasonable guidance quarter out as we have done in the past. But as far as identifying exactly what it's going to be going out, for example, for a year, it's not something we have done in the past, and we do not plan on changing at this point.

Trey Grooms

Alright, that's fair enough. And then just one last one on the acquisition. Would they utilize, I know you mentioned I think, procurement, would that be utilizing the same kind of recycled material that you use currently or is it in some other fashion?

Jim Cline

They are primarily stainless steel and aluminum; the aluminum does have a significant recycled content. On the stainless steel, I am not sure if it does or not. I have to do some research further on that. But they do not use composite materials, such as, Trex uses today very much.

Trey Grooms

Okay, I think the last one for me. Again, going back to the comments around the gross margin back to the core business, though. You mentioned, Bryan, that you expected more manufacturing efficiencies and more from higher utilization here, but you guys have been benefiting from the lower cost of raw materials. What's your outlook for the raw material on your core business as you look at least into the near term where you can see over the next maybe quarter or two?

Bryan Fairbanks

Yes, so as we talked about during the first quarter, we did see a significant reduction on a year-over-year basis. We also mentioned that much of that benefit would be lapping itself in the second quarter. That's pretty much what we saw. But there is still a slight decline in the marketplace. We saw a little bit of that in the second quarter, and we have no reason to expect that will change during the third and fourth quarter of this year.

Trey Grooms

Alright, thanks a lot and that was all very helpful and good luck to you guys.

Jim Cline

Yes, Trey, one other thing that I will point out to you. I don't know if you caught this article in Plastic News. China has told the World Trade Organization that they are planning to reduce a broad spectrum of scrap imports, plastic in particular. China is a huge buyer of plastics, and if

they do move forward with that, that will cause more plastics to be made available worldwide and certainly in the United States, which will drive prices to lower levels. I would guess this is probably out a year or two before we would see it, but if you haven't seen that article, you ought to grab a copy and take a look at it.

Trey Grooms

Alright, will do, Jim. Thanks for the heads up on that. It sounds encouraging. Thank you.

Jim Cline

Thank you.

Operator

The next question comes from Alex Rygiel with FBR & Company. Please go ahead.

Alex Rygiel

Good afternoon, gentlemen. Nice quarter.

Jim Cline

Thank you.

Alex Rygiel

As it relates to SC Company, I understand you don't want to get into the detail of the end market mix. But can you talk about whether or not that end market mix has changed much over the last couple years and whether or not one end market has grown faster than the others?

Jim Cline

It has changed a little. The railing side of the business is growing at a faster pace, and the railing is both focused on arenas, as well as commercial applications. And that's where we see the primary growth for the business, in the railing portion of it.

Alex Rygiel

And is there any international opportunity with SC?

Jim Cline

There is. In the near term, they have not been very focused on that; they have got about all they can handle right now domestically. They have done some projects internationally, as well as in Canada. So it's an extremely small portion of the business. When you look at the railing, for example, that they manufacture. This is not \$50 or \$100 a foot material, this is \$1,000 or several thousand dollars of foot material. So much more expensive than what you would see in a normal Trex product offering. So it's a very narrow focus for those that just expect and demand the very best.

Alex Rygiel

And then congratulations on picking up market share again in the decking business. Is there any way to think about or quantify the gain in share associated with sort of your advertising program versus maybe the recent inflation in wood products?

Jim Cline

Well, one of the things that we look at is the cost of pressure treated lumber, and we have not seen a significant movement in pressure treated lumber thus far. We do see it in the random price of lumber, but pressure-treated has really not moved that much. We see it in cedar.

That's gone up a little bit. But even before that was starting to take place, we have seen expansion and even Principia Partners had identified that they were seeing that the wood alternative was expanding at a faster rate than wood was during the economic recovery, which makes sense. As people have a little bit more money to spend, they want to get out of all the drudgery of maintaining their wooden decks. So we basically have seen it coming for the last two to three years, and it's really starting to accelerate.

Alex Rygiel

And lastly, as it relates to the advertising program to drive the market share gain against wood, should we expect any change in that advertising program in 2018?

Jim Cline

Advertising program is constantly being reviewed and modified to target those consumers where we can get the most bang for our buck. Even this year, there was a significant change in the way we spent our money, and we've been seeing great results from the way we've been spending that money.

Alex Rygiel

Thank you very much. Nice quarter.

Jim Cline

Thank you.

Operator

The next question comes from Matt McCall with Seaport Global Securities. Please go ahead.

Matt McCall

Thanks. Good afternoon, guys.

Jim Cline

Good afternoon, Matt.

Matt McCall

So maybe start with your China comments and tie that into the...just make sure I understood it. So, Bryan, you said that Q1 you saw significant benefit in raw materials and most of that was expected to be recognized in Q2. But it sounded like there's still more to come now. Has something else changed in the raw materials environment or are you seeing any benefits of China yet? Maybe, Jim, you're talking about the full benefits would be a year or two out. Just trying to make sure I understand what has changed. Is it just the market dynamics and have you seen some more relief? And then what's assumed from an incremental raws perspective in your back-half outlook?

Bryan Fairbanks

Yes. So I don't think anything significantly has changed since we last talked. The first quarter benefit that we saw was flow-through from the end of the year. It wasn't related to additional deductions that we saw during the first quarter. We talked about we expected the rest of the year to be relatively flat. Rather than being relatively flat, we've seen a slight decline during the second quarter, and we believe there may be some additional declines as we go through the rest of the year, nowhere near to the same degree of what we saw in 2016. It's really too early to say whether the China news has affected the market at all, as Jim mentioned, probably looking a year to two years out to really understand the full ramifications of that decision. It's not

even been officially announced by China as of yet. It's what they're proposing to do. There are a number of industry organizations that would prefer they continue buying. This isn't just plastic. This is across a lot of different scrap material classes.

Matt McCall

Right, okay. I think you said 60% would be the core Trex incremental or greater than 60%. Is the step-down...and I know the 92, that you did in Q2 is maybe not sustainable, although it's not a 92 comp a year ago, but as we look at the back half, what is it that steps out lower? Is it expectations of incrementally less raws benefit? You're not expecting as much incremental leverage? What is it that causes that to step down just in the math?

Bryan Fairbanks

Yes. So the 50%-plus incremental guidance is a consolidated number. The margin profile for SC Company is a different margin profile than our base business. So the math works a little bit differently when you combine a mid-20s gross margin with our mid-40s gross margin.

Jim Cline

The other thing to remember is that in the second half, our production is at a lower level. So cost reduction initiatives will generate less money during that time period as we're ramping down production consistent with the decline in the demand for the products.

Matt McCall

Okay. Okay. On the SG&A guidance, I think, Bryan, you said 17.3% for the year. So, that's with SC's low-teens. Did the core Trex number increase from what you were thinking last quarter or maybe what you were pointing to for the full year? Is it up from what we were thinking last quarter?

Bryan Fairbanks

No. We expected that level of spending in the second quarter and the 17.3% is guidance on the core Trex business, which is consistent with what we provided in prior quarters.

Matt McCall

Okay. Sorry, that was core Trex. Alright, final one. So SC, the faster growth, is it driven by a faster-growing market or I know it's a more fragmented space, so are there share gains included in that outlook?

Jim Cline

There're certainly share gains included in that outlook. They've looked at unique and creative ways to go to market for certain products that they're selling and have been very successful in that approach.

Matt McCall

Okay. Alright, thank you, Jim.

Operator

The next question comes from Keith Hughes with SunTrust. Please go ahead.

Keith Hughes

Thank you. My questions on the acquisition on the margins, are the gross margins low or mid-20s for the business?

Bryan Fairbanks

We say in the discussions they're in the low-20s.

Keith Hughes

Low-20s and I think you said SG&A in the low-teens...

Bryan Fairbanks

That's right.

Keith Hughes

At least would imply and EBIT in the 10% range. Is that before purchase accounting adjustments?

Bryan Fairbanks

Yes, that's before purchase. It's accretive to EBITDA, so we will need to do a balance sheet valuation in the third quarter. Understand where all of the different accounts fall at, what gets amortized, what doesn't, we'll be able to give better guidance on that as we get through the end of the quarter.

Keith Hughes

Okay. And when you just take all this mess out, what kind of EBITDA margins does it tend to run?

Bryan Fairbanks

We will be looking in the low-teens.

Keith Hughes

Low-teens EBITDA, so not much D&A. Okay. The way you described the business, it sounds like this is more of a metal fabricating business. Is that a fair description of its process?

Jim Cline

This is really a company that's more design focused. Yes, there's metal fabrication. This is more of a job shop environment, but the value they add is the custom designs that they're able to supply to their customers.

Keith Hughes

And yes, I hear what you're saying. I'm just surprised that gross margins are as low as they are. And given that case, is there anything specific to the business that you can do to get these margins up higher over time? Is there any scale advantages or things of that nature?

Bryan Fairbanks

Well, we certainly believe there is an opportunity to work with them to expand margins. There are certain things they've identified that can be done to grow those margins. And I think the 2018 year will be a good test to see if those ideas that they've identified and perhaps some that we've identified will in fact push those margins a little bit higher for them.

Keith Hughes

But, that's not going to be driven by a raw material synergy given that these kinds of products are pretty small portion of your purchasing. Correct?

Company Representative

Yes, the raw materials are a small portion, but we've identified that there would be a sizable potential saving there. But, you're right; it's other things that will drive the margins besides just reducing material costs.

Keith Hughes

Okay. Thank you.

Jim Cline

Thank you.

Operator

The next question comes from John Baugh with Stifel. Please go ahead.

John Baugh

Thank you. Good afternoon. Jim, Bryan, my congratulations as well for another great quarter. I was wondering, if you could refresh my memory, what is Trex's current mix of commercial sales? I know it's small, but is there any overlap with what you're doing with what SC is doing for cross-selling or the projects they are working on are sold, so upper scale or different? There's really not much there?

Jim Cline

We believe about 90% to 95% of our business is the residential marketplace, so there is a piece of it that is related to commercial, often that gets just kind of all lumped together here. It's difficult to identify all of these projects unless they are extremely large projects. With this acquisition, I don't see any overlap to the perspective as these are projects that we're working on together before, but what we do see is there's opportunities that will open up for both Trex and being able to use some of our products that are rated for commercial applications into projects that they're working on, and then there'll be other opportunities for their products to be able to work into certain commercial projects that we are engaged with.

John Baugh

Okay. And back to the core business, it sounds like input costs are dropping and maybe they'll drop further with China and all of that. But, how much of the reductions are due to process efficiencies, in your buying, I assume, lower quality waste streams, which are less expensive. Just trying to get a feel for how much is that versus just like-for-like raw material price changes?

Jim Cline

Sure. The key areas for benefit for the quarter included cost improvement initiatives, lower sales of excess polyethylene film, increased capacity utilization and lower cost of raw materials. Each of those accounted for approximately a quarter of the benefit.

John Baugh

Okay, okay. And any comment on how the two-steppers did versus the home centers?

Jim Cline

No, we really don't break that out. The share of overall sales is, we look at it really on an annual basis because on a seasonal basis it gets skewed, but I would expect that the number will remain in the 25%, 30% of sales for the home centers.

John Baugh

Okay. Thank you for answering my questions. Good luck.

Jim Cline

Thank you very much.

Operator

The next question comes from Jim Barrett with CL King & Associates. Please go ahead.

Jim Barrett

Good afternoon, everyone.

Jim Cline

Good afternoon.

Jim Barrett

Jim, congratulations on the deal.

Jim Cline

Thank you.

Jim Barrett

Can you tell us whether it was an auction process or not?

Jim Cline

It was not an auction process. I'll give you a little bit of color on this, Jim. We have been looking at this area for about 12 months now. The management team had gone through a fairly in-depth review of where we wanted to take Trex. We had looked at two other deals in the last 12 months, and neither one of those really met our needs. About four months ago, Adam Zambanini, our VP of Marketing, made a cold call to the CEO and just developed a dialog. And from there, we saw that they were the kind of people we thought we would like to do business with and after a conversation they agreed to take it to the next level. And so, we've been spending the last roughly three months in getting to know each other better and going through the due diligence.

Jim Barrett

I see. Good. And is their entire management team staying around? And is this a family-run business as opposed to a private equity-owned business?

Jim Cline

It's a private equity-owned business. The management has planned to stay around. There's no guarantee. We certainly want the management team, and we've been very clear we wanted the management team to stay. That was one of the huge draws. We like the guys that are running this company, and we think they do a great job taking it to the next level. And we're planning on just being there to support them. We'll give them some thoughts, but at the end of the day, they're going to drive this business forward for us.

Jim Barrett

And is there a contingency payout, assuming they perform looking out a year or two or three?

Jim Cline

I'm sorry?

Jim Barrett

Is there a contingency payout based upon performance in the first few years?

Jim Cline

No.

Jim Barrett

Okay. And my last question. Do they go through distribution or do they go direct given the customized nature of the sale and the price tag involved?

Jim Cline

Yes. The business really goes in several different directions. One is they get very close to the architects that actually do the designing of, for example, a stadium. That is one segment of what they do, and they work closely with them and then it's a bid process. They are a small subcontractor for very large contracts in those cases. In other cases, they'll team up with someone who is supplying certain products or perhaps installing material in other areas, and they will sell to them as a subcontractor. So, they approach in a couple different ways. They do not go through a two-step or multi-step distribution model. It's really to the installer or to the subcontractor to do the installations.

Jim Barrett

Thank you very much.

Jim Cline

Thank you.

Operator

Again, if you have a question, please press "*" then "1."

The next question comes from Frank Camma with Sidoti. Please go ahead.

Frank Camma

Good afternoon. Congratulations.

Jim Cline

Hi.

Frank Camma

I just have one quick question on the acquisition. In response to international, you mentioned that they really have all they can handle right now, just a clarification on that. Do you mean from a sales force perspective or from capacity or logistics? Can you just explain that comment?

Jim Cline

Sure. I'm glad you asked that. Yes, the requirements for doing projects and the longer the distance, the more it requires, for example, international business would require more engineering support than business, for example, in Canada or the United States. The engineering would be more the bottleneck. The manufacturing facilities could double and not even be stressed. So, we believe there's plenty of manufacturing capabilities. It's really the planning and the engineering on the front end of each of the projects that requires a greatest amount of focus from our perspective.

Frank Camma

Got it. So, there is no need for you to make any significant capital expenditures to do that, if I'm reading you right. Is it correct?

Jim Cline

You're correct.

Frank Camma

Okay. Thank you.

Jim Cline

Thank you very much.

Operator

This concludes our question and answer session. I would like to turn the conference back over to Jim Cline for any closing remarks.

CONCLUSION**Jim Cline**

Well, we appreciate everybody calling in today. This is an exciting time for Trex. This is the first acquisition of any consequence the company has made. It was with a lot of foresight and review by the entire management team, and we are looking forward to our first year of having this acquisition being reported under Trex's results.

In addition, the quarter we just completed just adds another quarter of significant growth in earnings as well as sales. We believe there's a long track of opportunity for Trex. We believe the significant cost reduction activities as well as the way we've been able to manage our procurement side of the business has enabled us to further step ahead of the competition and giving us a longer runway for continued expanded earnings.

Again, thank you for participating in the call today. We look forward to seeing you at the upcoming conferences and investor meetings. Goodbye.

Operator

This conference has now concluded. Thank you for attending today's presentation. You may now disconnect.