Trex Company

First Quarter 2019 Earnings Conference Call

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CORPORATE PARTICIPANTS

Jim Cline - *President, Chief Executive Officer*

Bryan Fairbanks - *Executive Vice President and Chief Financial Officer*

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

Viktoriia Nakhla - *Investor Relations*

PRESENTATION

Operator
Good afternoon and welcome to the Trex Company First Quarter 2019 Earnings Conference Call. All participants will be in a 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 all for joining us today.

With us on the call are Jim Cline, President and Chief Executive Officer and Bryan Fairbanks, Executive Vice President and Chief Financial Officer. Joining Jim and Bryan is 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 the market close containing financial results for the first quarter of 2019. This release is available on the company's website. This conference call is also being webcast and will be available on the Investor Relations page of the company's website 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-Qs 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 introduction, I will turn the call over to Jim Cline.

Jim Cline
Thank you, Bill. Thank you all for joining us this afternoon to review our first quarter results and discuss our business outlook. First quarter revenue and product mix was consistent with our expectations. Our standard margin was stronger than last year due mainly to product mix. Demand was strong for the quarter with shipments constrained by production throughput as a result of start-up challenges associated with our new Enhance products.

Our gross margin was pressured by start-up costs and manufacturing inefficiencies related to the production of our new Enhance products. In addition, two equipment failures at our Nevada operation in the first quarter resulted in the loss of two production lines for 30 days during the quarter.

These costs adversely impacted our first quarter by $10 million. While startup costs should be expected, this has been a challenging ramp up and the magnitude of these associated costs was greater than we had anticipated. Bryan Fairbanks will further review these costs in his financial commentary.

During the month, we made a number of changes to improve throughput including the modification of the Enhance decking profile. For those of you who have seen the product, the new profile has less pronounced scallops. These actions were taken in mid-March at our largest operation located in Virginia. Our production rates have come up to planned levels and associated operating inefficiencies have been reduced dramatically.

Our Nevada team has taken similar actions which we expect will have a similar positive outcome by the middle of second quarter. Also, equipment that failed at our Nevada operations in the first quarter are back in production. While we will still have start-up costs in the second quarter, the dollar amount will be significantly lower. This should result in a 300 basis point improvement in the second quarter's gross margin compared to the first and gross margin expansion beginning in the third quarter of 2019.

Demand for residential products remains strong. The slower-than-expected production build of the new Enhance products and the manufacturing efficiencies that ensued have caused capacity constraints at our Virginia operations where lead times have increased beyond our normal two weeks.

In Nevada, we have also extended lead times and have moved to an allocation program through the end of July to ensure a more balanced distribution of our products in the Western footprint. We have been in close contact with our channel partners, keeping them updated on our progress.

The Trex brand continues to gain recognition in the industry and attract considerable consumer attention. A number of recent awards are noted in today's earnings release. In addition, we continue to experience high levels of web traffic at both trex.com and decks.com.

The initial response to the launch of our Enhance Basics and Naturals products continues to be very positive at both pro and retail channels and consumer feedback has been encouraging. This supports our conviction that the new Enhance products will significantly increase our addressable market and accelerate conversion from the dominant wood market.

With respect to commercial products, revenue results were consistent with our expectations following a very strong 2018. Margin improved both sequentially and year-on-year but there's still work to be done to increase efficiencies.

In the meantime, the development of further synergies between our residential and commercial operations are proceeding well. We introduced two new railing products for the residential market that were engineered and designed with significant input from Trex commercial.

Operator, at this point I would now like to turn the call over to our Executive Vice President and CFO, Bryan Fairbanks for a more detailed financial review of the quarter. Bryan?

Bryan Fairbanks

Thank you, Jim. Good afternoon, everyone. I'll provide an overview of Trex's financial performance in the first quarter of 2019. Consolidated net sales increased by 5% year-over-year in the first quarter, mainly driven by 7% year–over-year revenue growth from residential products. This performance, which came on the heels of an 11% residential product growth in last year's fourth quarter, demonstrates continued strong demand for our decking and railing products. Sales from Trex's commercial products declined by $2 million year-over-year, in line with our expectations.

Jim mentioned the $10 million in start-up costs and manufacturing inefficiencies that reduce this year's first quarter gross margin. While we had anticipated a certain level of costs associated with the initial production of our Enhance products, the operating efficiencies from lower run rates at our manufacturing facilities and the equipment failures at our Nevada plant increased these costs considerably. The inefficiencies included reduced line rates, increased material usage, and lower manufacturing yields. In Trex Commercial, we made improvements to positively impact design, manufacturing, flexibility, and installation of our commercial railing solutions. These actions as well as the run-off of several legacy projects, which we expect to be completed by the end of the third quarter, led to sequential and year-over-year gross margin expansion of 280 basis points and 210 basis points, respectively.

SG&A increased by $1.2 million, or 4.2%, due to higher R&D expense this quarter, but expenses as the percentage of sales remained relatively flat year-over-year. Last year's SG&A included $1.2 million of amortization expense associated with the acquisition of Trex Commercial Products.

Our first quarter tax rate decreased by 230 basis points compared to the year ago quarter, primarily due to a current year increase in excess tax benefits. Net income amounted to $32 million or $0.54 per diluted share, compared to $37 million, or $0.63 per diluted share reported in the first quarter of 2018.

Overall inventory levels were similar to last year's level, but finished goods inventory at the end of the first quarter were significantly below our plan, which will limit our ability to meet demand in the second quarter. Consistent with prior years, we used the balance sheet to fund Early Buy program. At quarter end, we used $110 million of cash for operating activities, 12% ahead of prior year.

Capital expenditures increased to $9 million, primarily allocated to production improvements supporting increased line throughput. Net debt at the end of the quarter was $27 million, down substantially from the $82 million from the prior year's first quarter.

In the first quarter, we repurchased approximately 125,000 shares of our outstanding common stock under our stock repurchase program for a total outlay of $8.7 million. Under the program to-date, we've repurchased approximately 580,000 shares and have 5.2 million shares available for repurchase left under our program.

Also, please note that our balance sheet has been adjusted for the new FASB standard on lease accounting, which resulted in approximately $44 million in operating lease assets and liabilities being added to our 2019 balance sheet.

For financial modeling purposes, please note the following items:

- Incremental margin guidance to be approximately 40% for full year 2019.

- Second quarter margin is expected to improve sequentially by approximately 300 basis points.
- We expect our 2019 tax rate to be approximately 25%.
- And we expect our capital spending in 2019 to be approximately $45 million as we continue to invest in increasing throughput at our plants and in equipment upgrades.

Now, I'll turn the call back to Jim for his closing remarks.

Jim Cline
Thanks, Bryan. As noted in today's release, our guidance for the second quarter of 2019 consolidated sales is $195 million to $205 million, which is a decline from last year's second quarter levels. This reflects the first quarter impact of operating inefficiencies and lower than planned finished goods inventory at the end of March, as well as suboptimal second quarter production level at our Nevada manufacturing operations. We continue to dedicate significant resources to increase production throughput. In essence, 2019 will bear the cost of the investment and the Trex Company's long term growth, with the highest cost behind us and progressive improvement expected as we move through the year.

Operator, I'd now like to open the call up to questions.

QUESTION AND ANSWER

Operator
Thank you. 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. If at any time your question has been addressed and you would like to withdraw your question, please press "*" then "2." At this time, we will pause for a moment to assemble our roster.

Our first question today will come from John Baugh of Stifel. Please go ahead.

John Baugh
Thank you and good afternoon. Jim, if you could give us some guidance on where you wanted finished goods inventory to be at the end of the first quarter. And then roughly what you think the combination of that on the ongoing production challenges. It sounds like in both locations that's going to leave you behind in terms of revenue opportunity for the second quarter and the whole year.

Jim Cline
Yes, John, as I look at the demand for the product, as we ran through the first quarter, the demand for products clearly came on stronger than what we anticipated. We had anticipated the levels that we essentially ended up reporting at, but we left a lot of demand on the books that could not be satisfied, that is now rolling into Q2. We basically needed over $10 million of additional inventory on the books to be able to support even a portion of that. Demand continues to be strong in Q2 and, unfortunately, as we've talked about in our release, we are not going to be able to fully satisfy all of our customers. And it is unfortunate that we are there, but we are doing everything we can to make sure we're able to do that. One of the changes that we did make was to change that profile on the scallops. That was not without considerable expense. But it did enable us to get to the kind of throughput that would help our customers get through the season in a more orderly fashion.

With regard to the full-year sales miss, that I think we probably have. It's measured in tens of millions of dollars. Most of it would have occurred in the first and second quarter, it's hard to put an exact number on it because as you can imagine, when you're not able to ship with the consumer and the dealers demand, you are going to lose future sales on that. And we're going to do everything we can to get back on target in the third quarter and get the product out there that people need to run their businesses.

John Baugh
Thanks for that Jim. And with the profile change, is there more raw material in this product? Does that change the margin profile of Enhance?

Jim Cline
Yes, there is absolutely more material in it. It does change the margin profile of both the Enhance products that is embedded in the guidance information that we gave you both for Q2 and beyond. We believe that we will make progress on reducing costs into the future. But getting the volume out to our customers is more important than addressing a few million dollars of costs that we're being impacted by.

John Baugh
That makes sense. In the Nevada plant, they are not making any of the Enhance product, is that correct? And what precisely went wrong there, if you care to share it? And I wasn't clear on when the fix was fully implemented, whether it was mid quarter, or it will be end of June.

Jim Cline
The Nevada operations started running in early April with the new dies and the new scallop. But it is a learning curve, their operation runs a little bit different than the operation in Virginia. So it's a little bit of a challenge, and we believe that by the middle of May, we will be on target with the throughput that we had originally envisioned. Having said that, the demand in our Western footprint has been robust. And it certainly would be a challenge to be able to meet all that even if we had not had the equipment failures that we had.

Basically, what happened on the equipment failures, we had two key pieces of equipment on two separate lines that failed, and without those pieces of equipment you cannot produce the product on those production lines. The replacement of that equipment takes roughly 30 days to put in place. Fortunately, we did have standby equipment available. It's unusual that that type of thing would happen, but we were able to get them back up and running within roughly 30 days.

John Baugh
So Nevada, Jim, was making Enhance as well, or was it just Select and Transcend?

Jim Cline
No, they are making Enhance Naturals and Basics also.

John Baugh
Okay. Alright, thank you for all the answers and good luck.

Jim Cline
Thank you.

Operator

The next question will come from Phil Ng of Jefferies. Please go ahead.

Phil Ng
Hey, guys, appreciating you are having some challenges in the first half. But it sounds like you have that under control. But should we expect you get back on track from a production to margin standpoint as planned, coming into the year? And do you have some flexibility play catch-up in the second half to meet demand? And does that potentially provide a lift on fixed cost absorption if you're running kind of full out.

Jim Cline
Well, if you go back to the statement I made before, we do believe that in Q3 we will see expanded margins. We do believe that we will see expanded sales beyond what we normally would have expected, part of that is catch-up. But because the demand has been so strong for the Enhance Naturals and Basics, I'm reluctant to say that it's all catch up because I think that the demand will continue further into the years then what we've experienced in the past. And certainly, as we increase that production, the absorption does come along with it. That was included in that guidance that we would see expanded margins beginning in Q3.

Phil Ng
Got it. And then from a demand perspective, I mean, everything you're saying sounds great, right? It's coming in stronger than you expected. Does the upside isolate the Enhance or are you seeing it pretty broad based across the board? And it's still pretty early days, but just curious, were you able to triangulate where this Enhance product has resonated with the consumer? Is it coming from the demographic that you were targeting, or have you seen any impact from the high end of the market as well?

Jim Cline
The demand has been fairly strong in the Enhance Basics, as well as, the Naturals.

Phil Ng
Okay.

Jim Cline
That was to be expected because we had a load-in that needed to take place with all of our distribution partners. So very important to get that product on to their shelves, so they had it available to move to the sale points. We also saw a good demand for the Transcend products, a portion of which came in to try and beat the price increase back in December of 2018. But even when we look at what occurred in the first quarter the demand was up to our expectations there also for both Select and Transcend.

Phil Ng
Got it. And just one last question on Enhance, given the momentum that you've seen, do you have a sense what the run rate is as you exited April in terms of the sell-through for Enhance? Thanks.

Jim Cline
Yes, the sell-through is difficult; it's very early in the season. I can't tell you that what we are seeing in the south has been a very strong conversion story with the Basics. We're definitely seeing conversions from wood. We have received a number of pictures of decks that have

been completed by Trex pros in the field that work with both composites and pressure treated lumber, and they're being very effective on those conversions. So we do see that taking place. Really aren't seeing any evidence that we are losing on the top end of the products, the people that would be in the $100,000 to $150,000-a-year income levels really aren't seeing that many instances where people are trading down. We expect at a certain level and I would say at this point it hasn't materialized at the level we had thought it would.

Phil Ng
Got it. Appreciate the color. Good luck in the quarter.

Jim Cline
Thank you.

Operator
The next question will come from Alex Rygiel of B Riley FBR. Please go ahead.

Alex Rygiel
Thank you. Good evening, gentlemen.

Jim Cline
Good evening.

Alex Rygiel
The CAPEX guidance looks like it's up about $10 million from the last guide. Any thoughts on the increase there?

Bryan Fairbanks
Our CAPEX spending guidance is same as we were last time, so that's unchanged at this point, and we've talked about investing in additional throughput actions and upgrades in our facilities to gain more end product.

Alex Rygiel
Any comment on the cost of the equipment failure in the Nevada plant as it relates to CAPEX needs?

Bryan Fairbanks
It doesn't change our CAPEX needs. As Jim mentioned we had a number of those assets already on the ground which had gone through CAPEX and were included within the guidance that we already had provided.

Alex Rygiel
And is there any way for you to quantify the demand for Enhanced Basics or Naturals?

Bryan Fairbanks
Yes, I think it's too early at this point to put a number on that. And in addition, we don't break down our sales by individual products. I can say that the demand has been stronger than what we had anticipated and we are happy to see that. It affirms what our business evaluation told us that by introducing those products we would touch a new category of consumers and drive additional sales through our business partners.

Alex Rygiel

And in March, you made a change to the profile, the Enhance deck board. Why exactly did you do that?

Jim Cline
What we found was the throughput that we were achieving with the original design was not allowing us to put as many lineal feet through our production lines as what we needed to put through to be able to try and support our customers. So in reducing the scallop size, we were able to have a more stable production environment which enabled us to put significantly more product through the production lines, so we could better serve our customers.

Alex Rygiel
Makes a ton of sense. Thank you, gentlemen.

Jim Cline
Thank you.

Operator
The next question will come from Frank Camma of Sidoti. Please go ahead.

Frank Camma
Good afternoon, guys.

Jim Cline
Good afternoon.

Bryan Fairbanks
Good afternoon**.**

Frank Camma
I just have one question, just a clarification. So when you look at the quarter and you add-back, and maybe I'm doing this the wrong way, if I were to add-back the $10 million, I get a normalized gross margin about 44.2% which technically would still be down year-over-year. Is there a problem with looking at it that way because it's about 60-basis point decline even though revenue was up fairly nicely year-over-year. So what would be the problem with looking at it that way when you normalize it?

Bryan Fairbanks
Yes, the numbers that you're calling out are absolutely correct. When we gave the guidance for the 45% incremental margin that, of course, is over the course of the full-year, we had planned on some level of start-up inefficiencies. Those inefficiencies have been much greater than anything we expected. But also when you look on a year-over-year basis we did talk about this a little bit last year, higher costs of labor, increased inbound freight expenses. Jim talked a little bit about the increased material in Enhance that’s mostly picked up in the startup cost, and then some higher repair maintenance spending as well too. So that's more just a timing than anything else if you would have normalized for the quarter, we would have seen that anyways in the first quarter and then it would have been offset through the rest of the year.

Frank Camma
Okay. Just related to that then, was there any impact from pricing because I know you took pricing a little, so did that help offset any of those items?

Bryan Fairbanks
Very little impact from pricing, we had mentioned in the fourth quarter call that extremely heavy demand on the Transcend product line to get ahead of that pricing.

Frank Camma
Right.

Bryan Fairbanks
We shipped a lot in the fourth quarter, but a good number of those orders carried over to the first quarter as well. And so, we didn't see much benefit from the pricing, we expect we'll start to pick that up as we get into the second quarter.

Frank Camma
I see. Thanks guys.

Jim Cline
Thank you.

Operator
The next question will come from Keith Hughes of SunTrust. Please go ahead.

Keith Hughes
Thank you. So on Enhance in terms of getting the inventory stock out to customers, is that fully completed for those that want it here at the end of April or is there still work to be done?

Jim Cline
There's still work to be done because of the demand level we have got. It certainly does require that we have a higher level of stocking and our customers were working to try and get those levels up and that is the challenge that we are working under today to try and get as much product up to those customers as we can.

Keith Hughes
And do you know when they will have the full allotment? By the end of this quarter perhaps?

Jim Cline
I think that because we are chasing such a significantly increased demand from what we had planned for, I would say it is going to move into the third quarter.

Keith Hughes
Okay. And in terms of the new profile, can you co-mingle what you manufactured before with the new profile and a distribution location?

Jim Cline
We can. If you looked at it when you are standing on the deck, you would notice zero difference. All the scallops are underneath the board, so the consumer doesn’t look at it from that standpoint. They are slightly different, certainly different than the plan that we had, but at this point, virtually all of our customers are more interested in getting product that they can move through the retail channels quickly as they can.

Keith Hughes

Okay. Thank you.

Jim Cline
Thank you.

Operator
Our next question will come from Kurt Yinger of D.A. Davidson. Please go ahead.

Kurt Yinger
Yes, thanks and good afternoon, Jim and Bryan.

Jim Cline
Good afternoon.

Kurt Yinger
On the profile change of the Enhance products, could you maybe just give a little bit color given the scallop bottom is somewhat new for you as far as contractor adoption or any feedback you have gotten there from customers as far as ease of use or installation?

Jim Cline
Thus far, we have had no issues with installers or consumers with regard to installation. It is pretty straightforward. We offer the same type of product installation that we offer in other products. You can through screw it, or surface screw it, I should say, or you can use hidden fasteners. We supply both boards, so does not seem to be any issue there. As I mentioned, when we looked at the Southeast market, the conversion from pressure treated seems to be going fairly well in that region.

Kurt Yinger
Great. And then I was hoping you could talk a little bit about the timing of the wins within the retail channel that you disclosed. Is that part of the push out just given the production constraints or is that something that you wouldn't have necessarily expected to hit in the first or second quarters anyways?

Jim Cline
We had demand across all of our customer base beginning in the late fourth quarter of this year and we are servicing all of those customers with the production that we have from that time period. Unfortunately, we don't get in to discussing individual customers, just something we have never done. I think our customers appreciate that we maintain a sense of confidentiality with regard to their businesses.

Kurt Yinger
Okay. And then you referenced having perhaps a tough time satisfying demand even if you didn't have the equipment issues that you experienced in the quarter. As you look at the investments that you are planning to make this year, do you think you are going to be well-positioned to satisfy that demand in 2020 or are there any thoughts given to accelerating investments in capacity or adding lines or anything of that nature?

Jim Cline
We believe with the changes that we have made and some additional improvements in production, we think we are well-positioned to be able to service the market for 2020. We are in fact looking at other alternatives to move additional production capacity in place. But at this

point we have made no commitments to do so. But as we take a look at the takeaway by the consumers during the second and early part of the third quarter, that will be the driver for us to make the decision on when we make that decision to invest in the next step which is primarily expanded bricks and mortar as well as equipment.

Kurt Yinger
Okay. That's helpful. Thanks. And on the raw material front, I had seen some announcements from India and several other countries in Asia about at least intentions of some similar scrap plastic import restrictions as China. Is that something that you think can be a continued gross margin tailwind or would it be more from benefits related to your ability to expand the types and sources of scrap polyethylene you are going to use?

Jim Cline
Probably, the latter that you mentioned on the various types of opportunities that are out there. We will not see anything like we saw back in the 2016-2017 timeframe, but there will be likely a gradual decline in their price and the type of the mix of material that we use in the marketplace. The fact that more countries are moving away from it allows there to be more supply, but you just don't see the sort of percentage drop that we saw back in the early years when China backed away from the market.

Kurt Yinger
Right, okay. And then lastly, I was hoping you can maybe touch on the competitive environment a bit within the retail and pro channels, there is obviously been a shakeup on the home improvement front in at least under Fortune Brands ownership. It seems like they are trying to leverage the distribution for Fiberon a bit and so I am curious if the competitive environment is about as you expect or anything that was already there?

Jim Cline
Yes, I think the competitive environment is very consistent with what we expected to see this year. I don't see anything significantly changing there one way or the other.

Kurt Yinger
Great. Thanks for the color.

Jim Cline
Thank you.

Operator
Our next question will come from Matt McCall of Seaport Global Securities. Please go ahead.

Matt McCall
Thank you. Good afternoon, guys.

Jim Cline
Good afternoon.

Matt McCall
Sorry, if this has been asked, but I know you broke out, I think you said to another question that the impact from these items mostly in Q1 or Q2 would be in tens of millions. Can you quantify what you think Q2 guide would have looked like or how much of an impact you have seen from these items and just how much it impacted Q2 top line?

Jim Cline
So, you are asking me what our top line would have been in Q1 and Q2, had we been able to service the market fully?

Matt McCall
Yes.

Jim Cline
Yes. I really won't want to start speculating on what the numbers would have or could have been. I think the numbers speak for themselves. They are not where we wanted them to be. I think when I spoke before, I said, it's probably measured in tens of millions of dollars that we could have had in the calendar year, most of that would have been impacted in the first and second quarter.

Matt McCall
Okay. That's fair. So maybe I had more walk with this one. You talked about $10 million of pressures in Q1, the first part of the question, did that fully encompass all the pressures? I heard a separate comment I thought about throughput, or was that included in the 10 million? And then, do you have an estimate of what the impact from the continuation of these items is going to be in Q2 on the gross margin line?

Bryan Fairbanks
Yes, Matt. So, the $10 million is inclusive of the Enhance specific start-up as well as throughput issues that we saw within both of our manufacturing facilities as well as the equipment downtime that we had in the Fernley plants. As it relates to Q2, that's inclusive in the guidance, the 40% incremental for the full year, as well as the second quarter I am guiding to be 300 basis points better than the first quarter, on a sequential basis.

Matt McCall
Thanks, yes, go ahead Jim.

Jim Cline
The way I like to look at this is if you take the $10 million aside, what we saw were inflationary costs, inbound transportation, labor, in particular, some raw materials, we also had a price increase that we put in effect December 31. We had a lot of customers that took product ahead of that price increase. So, a lot of what we shipped out in the first quarter did not get impacted by that price increase. Had we had that price increase, I don't think we would have seen the margin deterioration that you saw absent the $10 million.

Matt McCall
Okay. So, how do I think about that in terms of the second quarter when I put all those together, so you will have more product at the new price, I am assuming labor, freight and some others also still be there, some inefficiencies. Maybe in relative terms versus that $10 million of pressure in Q1, what does it look like in Q2?

Jim Cline
Yes. I think a slightly better way to look at that is the guide we give is that compared to Q1 you are going to see about a 300 basis points improvement in margins.

Matt McCall

Okay. Thank you.

Jim Cline
You're welcome.

Operator
Once again, if you would like to ask a question, please press "*" then "1."

Our next question will come from Alex Maroccia of Berenberg. Please go ahead.

Alex Maroccia
Hi, good afternoon. Thanks for taking my questions. I know you previously mentioned staggered results in Trex Commercial throughout the year making forecasting difficult for it. However, did you see anything in particular that caused the lower revenue in Q1 2019, versus Q1 '18? And then additionally, when do you believe these older contracts are going to fully roll off? Thanks.

Jim Cline
The revenue for Trex Commercial came in right in line with what we expected for the first quarter. We know it can be lumpy from quarter-to-quarter over the course of the year and especially coming off of an extremely strong growth year that we saw in 2018. What relates to the older legacy contracts, those do continue to run off. Most of it will gone by the end of the second quarter. But, there will be a few that carry out through Q3 of this year.

Alex Maroccia
Okay, great. And then my second set is about the sales channel. So in which region did you see the strongest pull through of the products in retail vs pro? And then, in which channel did you see the biggest effect from the Nevada equipment issues?

Jim Cline
The pull through that we have seen thus far, we would look to the Southeast because obviously the consumer is buying earlier in the Southeast than what we see in the rest of the regions. With regards to where it's coming from, it's pretty widespread, we really don't identify separate channels in that way, and so I am not able to give you more color on that.

Alex Maroccia
Okay, got it. No problem, thanks a lot, guys.

Jim Cline
Thank you.

Operator
Ladies and gentlemen, this will conclude our question and answer session. At this time, I would like to turn the conference back over to Jim Cline for any closing remarks.

CONCLUSION

Jim Cline
I would like to thank everyone for participating in today's call. I know it's last minute, we appreciate you joining in, we wanted to make sure that the full content of our earnings release and earnings call was made available to all the investors at one time and that way they have the

complete story. So, thank you for participating. We look forward to meeting with you in the next quarter on a number of conferences we participate in. And look forward to our next earnings call with you. Thank you very much. Good day.

Operator
The conference has now concluded. We thank you for attending today's presentation. You may now disconnect your lines.