

Trex Company, Inc.

First Quarter 2016 Earnings

May 10, 2016 at 10:00 a.m. Eastern

CORPORATE PARTICIPANTS

Jim Cline - *President and Chief Executive Officer*

Bryan Fairbanks - *Vice President and Chief Financial Officer*

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

Jon Friedman - *Associate, MBS Value Partners*

PRESENTATION

Operator

Good morning and welcome to the Trex Company First Quarter 2016 Earnings conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note this event is being recorded.

I would now like to turn the conference over to Jon Friedman. Please go ahead.

Jon Friedman

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. Jim and Bryan will be joined on the call today by additional members of Trex's management team.

The company issued a press release this morning containing financial results for the first quarter of 2016. This release is available on the company's website. In addition, this call is 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 Trex's Senior Vice President, General Counsel and Secretary, Bill Gupp. Bill?

Bill Gupp

Thank you, Jon. 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 risk and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements.

For a discussion of such risk 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, and thanks all of you for joining us today to discuss our first quarter 2016 results and our business outlook. This was a record first quarter for Trex in terms of revenue, gross profit and earnings per share, and has set the stage for continued progress in 2016. Several factors came together to drive this exceptionally strong performance.

First, we executed on our sales plan. While there is no published industry data for the period, I think it's fair to say that our 9% sales growth in the first quarter outpaced the decking and railing market by a significant margin, representing another period of market share gains for Trex. This is particularly impressive when you consider that we came off a very strong fourth quarter driven in part by

unseasonably warm weather, which had a positive impact on this year's first quarter as well. Our market share expansion strategies are working, more on this in a moment.

Second, we achieved significant operating leverage in the first quarter, benefiting from lower raw material costs and higher capacity utilization at the same time as our manufacturing cost savings initiatives yielded strong benefits.

Third, we made a deliberate decision to defer a portion of our marketing spend to the second quarter, which means we had a pickup of approximately 130 basis points in SG&A as a percentage of net sales in this year's first quarter.

Taken together these three elements resulted in a record net income of \$23.4 million, up 33% from last year's first quarter. And when you consider the share repurchases, which drove down our share count to under 30 million shares, we were able to produce a 42% year-on-year increase in diluted earnings per share. Importantly, the contributors to this year's record gross profit are expected to benefit the second quarter gross margin as well.

The impact of our specialty materials business on the first quarter revenue and gross profit was negligible. Virgin pellet prices remain depressed and we do not expect a rebound any time soon. As you know, we are working on several new applications for recycled pellets that combine them with other polymers to produce specialty products. And we have a number of samples out for trial with potential customers. However, we have not built any meaningful sales contribution from these products in our guidance. The good news is that the sales growth we posted in Q1 was essentially related to our core Trex branded decking and railing business.

It is also an impressive growth rate considering the fact that we are facing currency headwinds in our international business due to the appreciation of the US dollar against most other currencies in the world. As you know, the sales outside of North America are not yet a significant contributor to our results, but we do see our coverage expanding nicely with new opportunities being presented on a regular basis.

More good news is that we're on-track with our sales growth initiatives. This is the second consecutive year that we have swept the annual *Builder's* magazine brand use study, with Trex being named top brand in all four of the wood alternative decking categories: quality, brand familiarity, brand used most, and brand used in the last two years. These top honors were the result of a survey of over 1,000 builders and contractors and other building industry professionals and confirm what we are hearing every day in the marketplace about the strength and versatility of our high-performance product lineup.

In today's release, we have noted these and other recognitions that we have gained so far this year, including one related to Trex's appeal to consumers who are attracted to green building alternatives. This is likely to be an increasing draw for us as sustainability becomes more integrated into consumer lifestyle choices.

Last quarter, we mentioned that we are refocusing a significant portion of our marketing and branding campaigns to drive accelerated conversion from wood decking and railing to Trex wood-alternative products. In April, we launched new targeted advertising, marketing campaigns that bring home a unique possibility that Trex products provide and customizing outdoor living spaces.

I encourage you to check out some of the footage on the Trex YouTube channel. We think it brings our key message directly to the consumer in a creative way and an efficient way, and look forward to hearing your feedback.

Taking share from wood decking and railing will be a key driver of accelerated market share gains for Trex in the coming years. And our branding and advertising campaigns will be aimed at building greater awareness of the aesthetic and functional advantage that Trex high-performance decking and railing offers consumers compared to wood products. Once consumers understand the comparative price considerations, we believe that the Trex decision is compelling.

Of course, it is our distributors and dealers and contractors who are face-to-face with our consumers, and we are helping them by investing in multiple marketing strategies aimed at strengthening their businesses and building the bond between Trex and its partners.

Our newest development was the launch of Trex University on March 1st, a 10,000 square foot interactive educational training center that provides unparalleled product knowledge to the trade. Interest in the contractor and dealer training is at an all-time high with more visitors attending Trex University since opening its doors two months ago than attended training in all of 2015.

With that, I'll hand the call over to our CFO, Bryan Fairbanks to provide a detailed review of the first quarter financial results.

Bryan Fairbanks

Thank you, Jim, and good morning, everyone. Net sales for the first quarter 2016 were in line with our expectations, coming in approximately \$700,000 higher than the guidance we provided at the end of February. We continue to benefit from more favorable weather conditions than in the prior year as well as the strong start to the 2016 early buy season that we spoke about on our fourth quarter earnings call. Growth was primarily from volume with pricing accounting for 120 basis points of the increase.

This year's first quarter sales did not benefit from scrap poly sales to the same extent as the prior year. The planned reduction we previously communicated was approximately \$10 million from the 2015 level or approximately \$2.5 million per quarter. Nor did the quarter have any meaningful contribution from our specialty materials business. So, in fact, the year-on-year sales growth for our decking and railing business continues to grow at low double digits.

As Jim mentioned, this was a record first quarter across our key financial metrics. The primary driver of significant upside in our first quarter earnings was gross profit, which increased 19.4%, resulting in a 390 basis point expansion in gross margin to 43.8%.

The improvement in gross margin was due to several favorable impacts including lower raw material costs and manufacturing related cost reductions, which together accounted for about 50% of the increase, while pricing, higher capacity utilization and other operating efficiencies accounted for the remaining 50%.

As you will recall, our year-end finished goods inventories were down by approximately \$8 million from the prior year driven by increased sales demand in the fourth quarter. In this year's first quarter, approximately 50% of that inventory was built back and we expect that by the end of the second quarter, finished goods will normalize with the prior year.

SG&A for the quarter totaled \$20.6 million, flat with last year's level but 130 basis points lower as a percentage of net sales, representing 15.7% versus 17% last year. For strategic reasons, we decided to defer certain branding and advertising spend to the second quarter of the year. As a result, SG&A as a percentage of net sales in the first half 2016 is likely to be similar to the first half of 2015.

Interest expense increased to \$572,000 from \$137,000. This was due to a \$57.5 million increase in outstanding borrowings, most of which was used to repurchase Trex common stock.

The company reported net income of \$23.4 million or \$0.78 per diluted share in the first quarter, increasing 33% and 42% respectively, from the net income of \$17.6 million or \$0.55 per diluted share in the comparable year ago period.

The tax rate in the year's first quarter was 35.8% compared to 36.2% in the 2015 first quarter. In the first quarter, we repurchased 1.6 million shares for a total of \$53.3 million, reducing the weighted average number of shares outstanding used in our calculation of fully diluted shares to 29.9 million from 32.1 million in the last year's first quarter.

Capital expenditures in the first quarter were \$2.4 million with the major areas of spending focused on high return investments to capture manufacturing cost savings. To summarize some items to take into consideration as you fine-tune your modeling for Trex 2016 performance, first, our sales in 2016 of scrap poly will be reduced by approximately \$10 million, split evenly over the four quarters.

For SG&A, the average of the first half is likely to be similar to 2015. We expect our effective tax rate to be about 140 basis points below last year's 37.4%, due to the non-recurrence of nondeductible tax items, and we have a new diluted weighted average share count of 29.9 million shares for the first quarter.

There are 1.6 million shares remaining on the repurchase program that the board approved in October of last year. Also, our borrowing capacity gives us significant financial flexibility to invest in organic and acquisition growth initiatives.

Due to the flow through of our strong incremental margin performance in the first quarter, we've increased our guidance for the full-year 2016 incremental margin to average 60% up from our previous forecast of 50%.

With that I'd like turn the call back to Jim for his summary comments. Jim?

Jim Cline

Thanks, Bryan. To sum it up, first quarter's results reflected the success of several initiatives aimed at driving sales, achieving manufacturing cost savings, and laying the foundation for a strong and sustainable long-term performance.

Our guidance for the second quarter sales is \$145 million, 8% ahead of the prior year when excluding the contribution from the scrap poly sales. The first half sales is an increase of 9% on that same basis. This growth rate indicates that we continue to gain market share in our category.

Additionally, we expect to see benefits from lower cost inputs and manufacturing cost savings throughout 2016 with the greatest impact in the first half of the year, making the second quarter, another period of significant operating leverage.

We believe that the first half performance will provide a very strong base from which we will continue to grow organically through continued market share gains and new product development. We're pleased to be off to a strong start in 2016.

And at this point, operator, I'd like to open the call up to questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. To ask a question, you may press star then one 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 star then two. At this time, we will pause momentarily to assemble our roster.

The first question comes from Al Kaschalk with Wedbush Securities. Please go ahead.

Al Kaschalk

Hi. Good morning, guys.

Jim Cline

Good morning, Al.

Bryan Fairbanks

Good morning.

Al Kaschalk

I just want to hit first the incremental margin comment, Bryan, that that was fairly strong in terms of the quarter and then how much of that was really the flow through to the 50% going to 60% for the full year. Can you talk about some of the details behind that?

Bryan Fairbanks

Yeah. So, if you flow through the benefit that you saw in the first quarter through the rest of the year, that'll take you to the 60%. We do expect to see continued strength in the manufacturing cost efficiency as poly pricing and utilization going through the second quarter. And then we would expect that to moderate with rest of the market in the second half of the year.

Al Kaschalk

Secondly, if you could comment on the traffic in terms of the April activity, tie that in, I guess, with the little bit more details behind the targeted marketing that you deferred and the traction that you're getting on that campaign?

Jim Cline

Are you referring to the activity we've seen on the web?

Al Kaschalk

Well, maybe overall just general on traffic of activity overall for the business in April given the programs and the weather. And then secondly, just a follow up to that would be some of the more details behind the reason that you deferred some of the marketing spending, was that tied to the strong weather, but yeah, just more details on what maybe why you deferred the spending, Jim?

Jim Cline

Yeah. Basically we do everything in our marketing group by the numbers. And they identified based on what they were seeing with regard to web traffic that we would be better off deferring that spend until the early part of the second quarter. That's why it was deferred.

With regard to April business, it's consistent with what we had expected. We have of course, as everybody has seen a fair amount of rain across the United States has not disrupted the installations of

decks, but I think it does impact people's interest a little bit in pursuing deck building. So rainy days are a downer when people start thinking about decks. Sunny days are a positive. We've seen more rainy days, for example in Winchester than we have sunny so far in the second quarter.

Al Kaschalk

Great. Thanks a lot. I'll hop back in queue.

Operator

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

John Baugh

Thank you for taking my questions and great incrementals. So could you talk, Jim, a little bit about—in the past few years the amount of business you do quarterly has sort of shifted as your ability to service in season is better. You had a very good fourth quarter, and I was wondering if you can somehow look at the results in the first quarter and maybe what you've seen so far in the second quarter. And is there any way of differentiating between what a shelf space fill versus pull through demand and how that's tracking sort of what the backlog or inventory I guess would be at the distributor level?

Jim Cline

Sure. As you're probably aware, John, we start our programs in the late part of the fourth quarter with regard to stocking the shelves and making sure that inventory is moved to the dealer. So if you have a mild winter as we did this past year, it enables them to service the immediate needs of the contractors. So that approach to our business has been very successful. We saw strong demand at our distributors; we do see their business as it moves to the professional lumberyards that were very strong. So we anticipate that inventories are at a very normal level for this time of year. And in fact, we started to see reorders coming in a little bit sooner than we normally do in a typical year.

John Baugh

Great. Thanks for the color. And then any comment on attach rates just of the railings? And then any comment on the poly, you mentioned the poly input costs were down? Could you go into a little more detail about what you saw happen timing wise on when that declines, is it flattening now, out now and your expectations going forward? Thank you.

Jim Cline

Sure. On the attachment rate for the railing, we did see that railing as a percent of our sales did grow a little bit in the first quarter, a little bit unusual; usually that's a slow quarter for the railing activity. So that has been quite modest.

I'll let Bryan take the second part of that.

Bryan Fairbanks

As it relates to poly pricing with recycled materials, it does tend to lag the virgin pricing. It does come down, but generally, you're looking at three to six to eight months after. So we have been taking advantage of that reduction in the marketplace since it started coming down.

We are seeing it level out at this point, so as we are seeing the virgin pricing level out as well. There are accounts we are still working with and negotiating with, but we do expect the gains from that as we go forward to moderate.

John Baugh

Great. Thank you and good luck.

Jim Cline

Thanks, John.

Operator

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

Drew Lipke

Yeah. Good morning, Jim and Bryan. This is Drew Lipke on for Trey.

Jim Cline

Good morning, Drew.

Drew Lipke

Appreciate you guys breaking out the volume and the price impact there in the quarter. Was there any sort of mix impact that we need to be aware of?

Bryan Fairbanks

No. There was really very little mix impact, very consistent with what we did last year.

Drew Lipke

Okay. And then just kind of following on to that, some of your competitors have been a bit more aggressive in offering up to 10% to 15% backend rebates. Can you talk about any of the impact that you're seeing there? What you guys are doing to address it? And then how we need to think about this rebate impact throughout the remainder of the year?

Jim Cline

Yeah. We've been a little bit surprised about the aberrant behavior of the competitors with these backend rebates. They've been fairly significant in nature. They have been relatively unsuccessful in gaining additional sales, but they certainly have been effective at holding existing customers to their product category.

Our reaction has been not to respond in kind. We think it is disruptive in the marketplace to the rest of the customers. Because what happens is everybody is worried about whether or not the next guy is getting a better deal when you do a special deal with one customer, how do they know they're getting the best deal? We give our customers the best deal every day, and basically, we give them the same pricing formula based on the types of purchases and the way they purchase the product.

Drew Lipke

Okay. Thanks for that. And second question, just your press release mentions acquisition potential. I think that's the first time that we can recall seeing that actually in there. I know it's something that's been talked on more lately. But can you talk about potential opportunities, what might make an ideal fit for Trex, potential size ranges, just anything we need to be mindful of there?

Jim Cline

Well, we certainly are open to acquisitions. We are reviewing those alternatives. I would expect that most acquisitions we would be interested in would be related to outdoor products. And they would be rather modest in size as opposed to transformational acquisitions.

Drew Lipke

Got it. All right. Thanks, guys. Best of luck.

Jim Cline

Thank you.

Operator

The next question comes from Alex Rygiel with FBR Capital Markets. Please go ahead.

Min Cho

Great. Good morning. This is actually Min for Alex. Congrats on a strong quarter here. I had a question about your pellets business. I know in the past, you talked about sales starting in the second quarter. Just want to know if you're still on track there. It sounds like things might have been pushed out a little bit.

Jim Cline

Yeah. As we've talked before, the low price of polyethylene has caused the market to be less receptive to recycled pellets. In addition, we found that the new blended pellets with the different polymers are taking a little bit longer to get through testing and qualification than what we'd anticipated. So, yeah, I think it's fair to say that we've pushed our horizon out a bit.

Min Cho

Okay. And then also, in terms of, Bryan, in terms of the SG&A guidance, you said it's the first half of 2016 will be in line with first half of 2015. Do you mean on a dollar basis or as a percentage of revenue?

Bryan Fairbanks

As a percentage of revenue.

Min Cho

Okay. Percentage. And that's even including, I believe—last 2Q you had non-operating expense of about \$900,000 in that line. Is it including that as well?

Bryan Fairbanks

It would be inclusive of that. Yes.

Min Cho

Inclusive. Okay. And then just maybe a little bit different topic here. I was just wondering, are you doing any specific marketing for the non-residential side of your business as it relates to decking and railings? I know you've done some in the past. Or is that more kind of one-off type of opportunities?

Jim Cline

Those are generally one-off type of opportunities. We do have some specific advertising campaigns that are not part of our core advertising that we are doing this year, but the details of that, we really don't convey in advance of those taking place.

Min Cho

Okay. And then just a final question in terms of share repurchases. Have you repurchased any more shares subsequent to the end of the quarter and if you could tell us what the current share count is?

Jim Cline

The guidance that Bryan gave you on the share count is the one that you ought to be using at this point. Typically, the way we approach our share repurchases are on a very opportunistic basis. We announce those at the next quarter's release and therefore we would not be in a position to communicate that at this point.

Min Cho

Okay. All right. Thank you.

Jim Cline

Thank you.

Operator

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

Keith Hughes

Thank you. Just following up with your comments on SG&A in the first half, talking about flat year-over-year. Are you referring to as a percentage of sales or just the dollars will be flat year-over-year?

Bryan Fairbanks

It would be as a percentage of sales, it would be flat on a year-over-year basis.

Jim Cline

That was for the six months.

Bryan Fairbanks

For the six months. That's correct. Yes.

Keith Hughes

For the six months added together, okay. And just you'd commented on the shift to a certain extent from the first to the second; just want to dive into that a little bit more. Traditionally, the deck at least in the Southeast, the kind of deck planning season it will begin actually sometimes February, March and into April. Was there any other thoughts you can give on the timing move to the second?

Jim Cline

Yeah. Basically what we do is we look at a variety of metrics related to our website activity. And based on that, we developed a view on how we could maximize the benefit from our advertising. And based on what we were seeing with our web traffic, we felt that moving that to the second quarter would be more impactful. And that's why it was moved.

Keith Hughes

Okay. Thank you.

Operator

The next question comes from Matt McCall with BB&T. Please go ahead.

Matt McCall

Thanks. Good morning, guys.

Jim Cline

Good morning.

Bryan Fairbanks

Good morning, Matt.

Matt McCall

So, let's see, hitting SG&A again, you mentioned the Trex University, was there any investment that showed up in Q1 that we should keep in mind as we're modeling next year?

Bryan Fairbanks

The investment for Trex University was in the fourth quarter as well as the first quarter.

Jim Cline

And that was a capital expenditure.

Bryan Fairbanks

Capital, right.

Matt McCall

Okay. Got it. Got it. So, as we think about lot of questions about the first half—and I appreciate that insight and what we should expect. But when we look at the back half, and we take into account the altered advertising spend, is there anything we should look at from an SG&A perspective or was it basically just the shift from Q1 to Q2 that we should keep in mind?

Bryan Fairbanks

I think it's fair when you look at SG&A on a full-year basis, we've tended to leverage the additional sales dollars we've had over the past number of years. We would expect to continue to have some level of leverage on a full-year basis as we go forward.

Matt McCall

Okay. And then you talked about, so you talked about the elimination of scrap, I understand you've got to make that adjustment, pricing was up 120 basis points, you mentioned weather, and I think you said early buy. Can you put some numbers behind the benefit from weather or some of the early buy activity you saw?

Bryan Fairbanks

I wish I could put numbers against the weather piece of it. In the first quarter, it's very difficult to determine the organic outgoing demand specifically related to weather. We did have a strong early buy. Our customers all recognized that the market was growing. They've built their inventories so that they could service a higher market this year than last year. And as Jim mentioned in his comments, they're very comfortable with their inventory positions coming out at the end of the first quarter.

Matt McCall

Okay. Okay. I guess that question was kind of leading into the next one, I think the growth rate projected for Q2 is 8%, you just did 9%. Looking at the year-ago comps, it looks like they get easier. So I'm trying to understand the different components of that 8% growth. What's the market expected to do? How much price is in there? It sounds like there is not much pellets expected, but can you just go through some of the components of what drives that 8% growth number?

Bryan Fairbanks

Sure. Price on a full-year basis is going to run around 80 basis points.

Matt McCall

Okay.

Bryan Fairbanks

Jim mentioned that the pellet business was insignificant in the first quarter, and going into the second quarter, we're expecting continued depressed prices. So there will be some level of improvement, but again not a significant driver to the revenue of the company. We hope some of the initiatives that we're working on will result in higher level of sales later on this year, but it's something that we'll speak about further at the end of the second quarter call.

The vast majority of the benefit of what you're seeing is Trex growth in the decking and railing business growing in excess of the market, which has been stated to be growing in the low to mid single digits.

Matt McCall

Okay. Thanks, Bryan.

Operator

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

Jim Barrett

Good morning, everyone.

Jim Cline

Good morning, Jim.

Jim Barrett

Good morning. Bryan, these are a few questions for you. Can you tell us what are your expectations for capital spending this year? And on a related note, how should we think about the growth in working capital when we look at the full year?

Bryan Fairbanks

Yes. We haven't changed any of our guidance on capital spending for the year. We're still expecting the \$20 million to \$25 million range for the year. From a working capital perspective, looking at our numbers historically and adding in adjustments for growth of the company would be appropriate. One of the things that you will see in Q2 and Q3 last year, DSOs were quite high in those two quarters because of the programming that we had put in place. If you were to model that this year taking an average of the prior three years of each of the quarters should get you pretty close.

Jim Barrett

Thank you. And, Jim, one question for you. Could you give us an update on the company's interest to penetrate further the private label market for decking in the US?

Jim Cline

Well, we're certainly very interested in the opening price point typically through the two major retailers. They do have a bid process that they utilize and Trex will be very active in that bid process.

Jim Barrett

Thank you both.

Jim Cline

Thank you.

Operator

The next question comes from Morris Ajzenman with Griffin Securities. Please go ahead.

Morris Ajzenman

Good morning, guys.

Jim Cline

Good morning, Morris.

Morris Ajzenman

Capacity utilization being higher, can you just kind of give us some sort of ballpark figure where that is now, where it was a year ago versus let's say five years ago, just to give us some sort of trajectory what's happening there?

Bryan Fairbanks

Yeah. So in the first quarter, we ran about 10% higher than we did during the prior year. I don't have the five-year ago number. It would be significantly higher from a volume output perspective, but our efficiencies at our plants have improved so significantly, that honestly, it wouldn't be a particularly good comparator for modeling purposes.

Morris Ajzenman

And what would 10% high, what was it last year?

Jim Cline

Morris, we don't release information on a quarterly basis. The guidance we've given in the past, last year, we're roughly 50% and we will be close to 50% on average for this year as we expect to continue to see improvements in our manufacturing capabilities.

Morris Ajzenman

Okay. And then, and again, the incremental margin, related to capacity utilization, obviously, is very high, you're only 50%. So, if you get to 60%, 70%, that's what's driving the incremental gross margins obviously?

Bryan Fairbanks

Well, that in addition to other cost drivers, efficiencies that we have within our operations as well as cost saving initiatives.

Morris Ajzenman

Where would you like to be capacity utilization two, three years down the road, assuming you're making no major additions and tweak a lot?

Bryan Fairbanks

I would like for our operations to continue improving their efficiencies. We'll continue to grow the company and stay at the capacity utilization we are today. We recognize that, that isn't always going to be the case, but we do believe that there's additional room for efficiency improvements within our plants.

Morris Ajzenman

You mentioned in the call that this quarter composites for the company was up low double-digits. I think you said in answering a question that the composites have been rising about low-single mid-single digit area. Does that hold also for the first quarter, your best estimate? And what would you say wood decking is running at?

Bryan Fairbanks

So, we wouldn't have a split specifically for the first quarter. Those growth numbers tend to be over a little bit longer period of time, so I wouldn't want to hazard a number on what the first quarter was growing. We don't see any major shift in the market that would say that composites are growing more quickly from a market perspective than the mid-single digits.

Morris Ajzenman

Okay. Last question and I'll get back in queue here. You talked about virgin pricing and recycled pricing. Can you give us an idea of where they are both virgin and recycle today and what it was a year ago?

Bryan Fairbanks

The virgin spot market or contract market, excuse me, is running around \$0.60 a pound and has pretty well leveled out there. Whereas last year around this time, we'd already seen quite a bit of drop in that marketplace. It was around \$0.70 a pound.

From a recycled perspective, we buy a lot of different classes of recycled materials and it really depends upon the number of buyers, the cleanliness of the products in the marketplace. It's not as easy to provide just a pure percentage to that. So, we're not going to provide anything further related to the recycled side of it. Suffice it to say that we are driving down our raw material purchase cost with recycled materials in line with the marketplace.

Morris Ajzenman

If I ventured to say a blended rate recycled \$0.20, \$0.25 a pound, is that in the ballpark or not?

Jim Cline

That would be high.

Morris Ajzenman

Be high. Thank you.

Operator

Again, if you have a question, please press star then one. The next question comes from Kenneth Smith with Lenox Equity Research. Please go ahead.

Kenneth Smith

Thank you. Question on new products, Jim. Aside from the items you have in test right now, are there any other new products in the pipeline that we can be looking to see here in the near future?

Jim Cline

Ken, as I think you are aware, Trex one of its strengths is the development of new and exciting products. And certainly, we continue to see the opportunity for new products and new product introductions to be a strong quality of Trex's growth pattern.

We normally announce any new products at our distributor meeting, which will occur around the first

week of November. So, stay tuned. Shortly after that, if there are any new products, that's when the Street will hear about them.

Kenneth Smith

Okay. Thank you.

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

Thank you for participating in today's call. We look forward to seeing you at upcoming events. And with that, I'll turn the call back over to the operator. Thank you.

Operator

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