Trex Company, Inc.

Second Quarter 2016 Earnings

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CORPORATE PARTICIPANTS

James Cline, *President & Chief Executive Officer*

Bryan Fairbanks, *Vice President & Chief Financial Officer*

Bill Gupp, *Vice President & General Counsel*

Jon Friedman, *MBS Associate*

PRESENTATION

Operator
Good morning and welcome to the Trex Company Second 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 1 on your telephone keypad. To withdraw your question, please press *star, then 2.

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 are joined by other members of Trex's management team.

The company issued a press release yesterday, after market close, containing financial results for the second quarter of 2016. This release is available on the company's website. The 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'd now like to turn the call over to Bill Gupp, Vice President and General Counsel. 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 risks and uncertainties, please see our most recent Form 10-K and Form 10-Q's as well as our other 33 and other 34 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.

James Cline
Thank you, Bill. Good morning, everyone. We appreciate your participation in today's call to discuss our second quarter operating and financial results and our business outlook. As you have seen from our earnings release issued yesterday, this was another outstanding quarter for Trex, the third consecutive quarter in which we have produced double-digit earnings growth, thanks to the unmatched strength of the Trex brand, our unique business model, and efficient cost structure. In fact, this was the second consecutive quarter for us in terms of both sales and earnings, positioning Trex for an excellent 2016.

Our total revenue increased 7 percent in the second quarter, which was in line with our guidance. This growth reflects the strength of the remodeling sector and the effective execution of our branding and marketing strategies. Our internal projections point to a continued strong demand from both trade and consumers. I am pleased to report that we managed to convert the high single-digit sales growth into a 36 percent increase in diluted earnings per share, thanks to a combination of several factors. Most important, was our 350 basis point increase in gross margin, which, consistent with the first quarter, benefitted primarily from lower input costs, ongoing manufacturing cost savings, and higher capacity utilization. Bryan will go over these areas in more depth in a moment.

Trex has an important raw material cost advantage thanks to the use of recycled plastic film. Our past investments in plant capacity leaves us well positioned to meet future growth without the need for significant additional investment. Even with a significant ramp-up in sales, we have the capacity to handle more volume, driving improvements in profitability. Second, despite the additional marketing spend we previewed last quarter, we succeeded in holding the year-on-year increase in SG&A as a percent of sales to only 50 basis points. Finally, we benefitted from lower share count as a result of our opportunistic stock repurchases in the first quarter.

Similar to the first quarter, the impact of our specialty material business on the second quarter revenue was negligible, as low virgin poly prices continue to provide a headwind. In addition, we continued to reduce the purchase and resale of recycled polyethylene. As a result, our sales growth in the second quarter and first half reflected the ongoing strength of our core Trex-branded decking and railing business in the United States. International sales outside of North America continue to grow at a significantly faster pace than North America, although they remain below 10 percent of total sales. We are expanding our international sales channel representation to position us for accelerated growth in the future as we see international representing an important long-term market opportunity.

Over the last year, we have made strategic capital investments to enhance the support of our customers. Some of these investments have had immediate benefits, while others are focused on longer-term initiatives. Notable investments include Trex University, Trex Online, the consolidation of our railing and poly operations footprint, the acquisition of 17 acres of land adjacent to our Winchester facility, and the planned expansion of our rail transportation capabilities. We are making these investments to ensure efficient and effective responses to the needs of our customers and to mitigate costs going forward.

These capital initiatives will allow us to continue to deliver our customers' requirements faster than the competition and lower costs for both Trex and for our customers. Over the last year, we maintained our industry-leading, on-time shipping rate, exceeding 98 percent. This was not done by expanding inventory, but through the hard work of our operations team, who implemented significant process and planning improvements. An additional benefit is the significant expansion of the number of consumer leads we channel to our business partners.

Web traffic to our site has never been higher, with dealer and contractor searches in the first half of 2016 showing strong double-digit growth compared to the same period last year. Our Trex versus Wood campaign continues to gain traction with consumers, which we see as an important opportunity to build future business for our trade partners. In April, we launched a comprehensive advertising campaign to highlight the aesthetics of our outdoor living products and the benefits over our largest competitor, wood. Consumer engagement initiatives are also on the drawing board at Trex as we advance our plans to gain incremental share from wood. Wood represents about 84 percent of the lineal feet sold in North America in decking and the railing market, a significant growth opportunity for Trex.

With that, I will hand the call over to CFO Bryan Fairbanks to provide a detailed review of our second quarter financial results. Bryan?

Bryan Fairbanks
Thank you, Jim, and good morning, everyone. As Jim mentioned, we achieved record sales and earnings this quarter, which benefitted from many of the same trends that drove our first quarter performance.

Net sales for the second quarter were a record $146.5 million, up 7 percent year on year and in line with our previous guidance. This growth was mainly driven by higher volumes in our core decking and railing business, reflecting our ability to leverage the market-leading Trex brand. Second quarter sales growth was partially offset by the expected reduction in the sale of poly film. As you may recall, we executed a strategy in the fourth quarter of 2015 to cut back our purchases of poly film to a level that would be more consistent with our production requirements. We advised the annual sales impact in 2016 would be a reduction of approximately $10 million spread evenly across the year.

The primary driver of our record earnings result was a robust gross profit, which increased 16.9 percent, resulting in a 350 basis point expansion in gross margin to 41.9 percent. The improvement in gross margin was due to several positive impacts including lower raw material costs, manufacturing cost improvement initiatives, and higher capacity utilization. We anticipate ongoing benefits from these factors for the rest of the year.

SG&A for the quarter totaled $24.8 million, up 10 percent from the second quarter of 2015, but remained relatively flat as a percentage of net sales, representing 16.9 percent versus 16.4 percent last year. The year-on-year increase in absolute dollars was primarily due to higher branding expenditures that were shifted to the second quarter from the first quarter. As we previously guided in first quarter remarks, our first half SG&A as a percentage of sales was approximately equivalent to the first half of 2015, at 16.3 percent versus 16.7 percent in the prior year.

Interest expense increased to $458,000 from $188,000, due to an increased credit line draw which was primarily used to repurchase Trex common stock in the first quarter. The tax rate in the year's second quarter was 35.6 percent compared to 37.3 percent in the 2015 second quarter.

Net income increased 24 percent to $23.3 million, and diluted earnings per share were up 36 percent, to 79 cents, in the second quarter compared to net income of $18.7 million, or 58 cents per diluted share, in the comparable year-ago period. Our second quarter diluted weighted average number of shares outstanding was 29.4 million, down from 32.1 million in last year's second quarter as a result of our opportunistic share repurchases in the third quarter of 2015 and first quarter of 2016. There are 1.6 million shares remaining in the repurchase program authorized by the Board in October of last year.

We had strong free cash flow of $97 million, resulting from $100 million of operating cash flow, partially offset by $2.6 million of investing cash flow in the second quarter, which brought first half free cash flow to $15 million. We have been able to meet increased demand, while maintaining flat inventory levels, resulting in greater profitability and cash flow. As Jim mentioned, we continue to provide 98 percent-plus on-time shipping to our customers — while not doing this through expanded inventories but, rather, through greater operational efficiencies, planning, and execution.

In terms of capital allocation, during the quarter, we paid down $98.5 million of debt, ending the second quarter with net debt of $40 million. Capital expenditures in the second quarter were $2.7 million. Our capital spending strategy is focused on new product development and quick return investments to capture manufacturing cost savings. The pace of capital spending will accelerate in the second half of the year, with a continued focus on the items noted. For full year 2016 capital spending, we have narrowed our guidance to the lower end of $20 million to $25 million provided earlier this year

To summarize, some items to take into consideration as you fine-tune your modeling for Trex's full year 2016 performance:

As previously communicated, our full year 2016 revenue will not see the benefit from approximately $10 million of scrap poly sales that was recorded in 2015.

There has been a notably strong flow through of our incremental margin performance in the first half of 2016. As a result, we have increased our guidance for full year 2016 incremental margin to average 80 percent, up from our previous forecast of 60 percent. The increase in incremental margin is due to a more rapid realization of cost savings than what we originally anticipated.

We expect this year's effective tax rate to be about 140 basis points below last year's 37.4 percent due to the non-recurrence of non-deductible tax items.

We ended the first half of 2016 in a very strong position with record results. Diluted EPS increased 39 percent to $1.57. Our balance sheet is strong, providing us with financial flexibility and substantial resources to invest in future growth initiatives.

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

James Cline
Thanks Bryan. To sum it up, this was an outstanding quarter for Trex. With record sales and earnings, we continue on track to deliver strong earnings growth for the year 2016.

We expect third quarter revenue to be approximately $105 million, or 12 percent ahead of last year. At this guidance level, our trailing 12-month sales will be up by 11 percent. Gross margin comparisons are expected to continue to benefit from lower input costs, cost savings, and modestly higher capacity utilization.

The longer-term outlook remains quite positive. Initial metrics show that our marketing campaigns are resonating with both trade and consumers. We continue to develop innovative products and are confident in our ability to increase conversion from wood to high performance products. After taking the lead to initiate a national advertising campaign focused on educating the consumer on why to buy Trex versus wood, I am pleased to see that all of the major manufactures are starting to focus their efforts on the conversion from wood to wood alternative products. Every 1 percent of market share we gain from wood will add $50 million in revenue, and we have a compelling case for conversion. Over the life of the product, the consumer will save much more than the initial price premium, while enjoying a customized outdoor living space that is guaranteed to retain its color and consistency for 25 years.

At this point, Operator, I would like to open the call for questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star, 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 star, then 2. At this time, we will pause momentarily to assemble our roster.

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

Al Kaschalk
Good morning, guys.

James Cline
Good morning, Al.

Bryan Fairbanks
Morning.

Al Kaschalk
Congrats on the strong quarter. I just wanted to drill down a little bit on the incremental margin, in particular, the sustainability of that, particularly as we look out. I realize you're not going to talk about future outlooks, but just in terms of the operational changes you've made, maybe the benefit, I guess, of lower input and then, more importantly, capacity utilization, how should we be thinking about those types of trends on the incremental side in light of the scrap poly sales that you're benefiting from in 2016?

Bryan Fairbanks
Yeah, we're very pleased with the incremental margin performance that we've seen through the year. You can expect to see elevated incremental margins through 2016. As such, we've revised that guidance to 80 percent incremental for the rest of the year. Many of the same drivers that you saw through the first quarter and second quarter, you'll continue to see through the remainder of the year.

During the first quarter, we know that 50 percent of the gains were through lower raw material costs and other cost saving initiatives, while the remaining 50 percent was through pricing, capacity utilization, and other operating efficiencies. Our gains during the second quarter fall into the same groupings and ranges. I wouldn't expect to see much of a difference on that as we move into the second half of the year, although the capacity utilization will be more modest than what you've seen during the first half.

Al Kaschalk
Great. And then my follow-up, if I may, I hate to — hate to ask about future growth initiatives, because you're doing a hell of a job with an incremental dollar of revenue that comes in, but, Jim, could you maybe just comment on maybe some of the opportunities or where you're at in terms of the — for the company side on expansion of the — of the product line?

James Cline
Sure. As you're probably aware, we have been quite focused on our international expansion. While it remains less than 10 percent of our sales, we have seen significant growth

opportunities there, picking up some larger retail accounts in Europe in particular as well as expanding our distribution within Europe. We think we have the right business model effectively working in that area. The second major opportunity would be specifically related to conversions from wood. We're very focused on that, because it's such a huge opportunity for the industry, but Trex sees that as a huge opportunity for us. We're the first ones to put a national campaign out there. We think we will drive the awareness, and based on what we're seeing with our website hits specific to that, the consumers are interested in focusing their buying in that manner. We are constantly looking at our product offering and improving our product offering. We think there will be opportunities down the road for those improvements to also affect us positively. Finally, we do focus on continuing to expand our market share in the alternative wood market, and we continue to be successful in moving the ball forward in that arena.

Al Kaschalk
Does that imply there was acquisitions or just — just — just brand strength that's carrying preference for the Trex brand?

James Cline
The brand strength is what's carrying the — the — the leading opportunity there. We have continued to expand what the consumer sees with regard to the Trex brand. If you look at the website performance compared to others in the industry, we are clearly making tremendous progress in that, which brings more consumers to our website, which, in turn, we're able to channel to our business partners, and those are yielding great benefits at this point.

Al Kaschalk
Good luck, guys. Thanks for the color.

James Cline
Thank you.

Bryan Fairbanks
Thanks, Al.

Operator
The next question comes from Alex Rygiel of FBR. Please go ahead.

Alex Rygiel
Good morning, Jim and Bryan, great quarter.

James Cline
Thank you.

Alex Rygiel
Jim, do you have any idea, or I'm sure you know — but if you want to share it with us — what is the mix of customers that are buying your product to install a new deck versus buying your product to replace a competitor's product and/or buying your product to replace wood?

James Cline
Yeah, the vast majority of our decks that are sold are repair and remodeling. That would include replacement of wood, replacement of competing products, and in some cases, replacement of Trex products. In addition, we see a number of decks that we include in repair and remodeling which are in relatively new houses but were not put on the house when the

house was initially constructed. You see that an awful lot. You'll see the bar across the sliding glass door after a house is built, and within about three years, you'll see a deck go onto that house. We include that as part of the repair and remodeling. So new housing, specifically when it's built with the house, a deck goes on, that would be about 5 percent, so then 95 percent is made up of the other category just described.

Alex Rygiel
And then as it relates to sort of the third quarter revenue guidance of 12 percent growth, can you give us a little bit more color on that relative to the first half performance, why the acceleration in growth and maybe compare it to last year's sort of weaker third quarter? And then a little bit of color on SG&A in the second half of the year versus last year's second half would be helpful as well.

James Cline
Sure. If you go back and look at the performance of Trex over the last three quarters, you would see that the fourth quarter performance was up quite substantially. That's when we initially started selling into dealers, in particular getting inventory on the ground so that they were able to begin to sell-through if they have a mild winter. We had a mild winter, so they did begin that sell-through. I think fourth quarter was up about 20 percent, if memory serves me right. The first quarter is basically a continuation of load-in, so we anticipate typically it's not as robust as what we can see in other quarters, and then you also see the sell-through beginning to occur in the second quarter. The third quarter is kind of where everything equalizes. The inventories start to come down significantly as distributors begin to reduce their inventory in anticipation of the winter. So people start reducing their inventory, but it also tells you what the channel inventory looks like. The reason for the stronger third quarter is we saw very early on that the channel inventory was not sufficient to keep up with demand, and therefore we saw increased demand occurring in July that pushed our number a little bit higher than what the Street had expected.

Do you want to take the SG&A?

Bryan Fairbanks
Could you just throw — repeat the SG&A question you had?

Alex Rygiel
Yeah, your SG&A guidance for the second half of 16 versus the second half of '15 on a — sort of a percent-of-sales basis would be helpful. Should we expect it to be up a little bit, down a little bit, and for what reason?

Bryan Fairbanks
You can expect a similar percentage to where we were during the prior year.

Alex Rygiel
Very helpful. Thank you.

Bryan Bertaux
SG&A for the full year will be about the same basis points as revenue as it was last year.

Alex Rygiel
Thank you very much.

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

Keith Hughes
Yeah. Two questions. One, what was the breakdown between volume and pricing in the quarter, and, second, on the raw materials, your outlook there for the next several quarters, it sounds as though you're going to continue to get these benefits. You're getting a little light than other plastic users, but as we — as we anniversary this next year, will you still have some potential gains?

Bryan Fairbanks
All right. So, first, from a volume and price perspective, we had about 90 basis points of pricing come through during the quarter, and then the remainder was volume. And as we look at the reduced raw material costs, we'll see — start to see a small portion of that start to overlap in the fourth quarter, but, really, by the first quarter, is when you'll start seeing the year-over-year numbers decrease, where we'll truly have the overlapping of the cost savings. So we do expect to continue to see a strong benefit on a year-over-year basis, both in the third and the fourth quarter of this year.

Keith Hughes
Thank you.

Jim Cline
And, Keith, just one thing I'd like to add, Keith.

Keith Hughes
Go ahead.

James Cline
It's kind of interesting when you look at the commodity prices, we have seen oil start to blip up a little bit. My local gas prices just dipped under $2.00 a gallon for regular, so a good sign for that. But if you look at the virgin polyethylene, virgin polyethylene is down about 7 percent year over year. We're seeing a continuous — continued drop in prices for the scrap poly. We believe that is going to stabilize as we get toward the tail end of the year. Interestingly, PVC is actually trending upwards. It's about 5 to 6 percent higher than a year ago, so it's kind of a mixed bag. It's based on available capacity for the virgin products. Ours, again, is based on general economic conditions, because we buy on the scrap market. Those are trending downwards very modestly at this point.

Keith Hughes
Thank you.

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

John Baugh
Thank you, and good morning and congrats on a great quarter, guys. I guess a couple of just tidbits here. One, that $10 million in sales that you're missing this year, Jim, I can't remember, did that — was that profitable for you last year? In other words, is that a margin accretion, not having those sales?

James Cline
Last year it was break even to a slight loss, and so eliminating those sales actually have a slight benefit to the margin percentage.

John Baugh
Right. And I apologize if you've got this in filings and I haven't seen it yet, but it's nice to hear there are no charges relating to replacing decks. How is that whole claims process — settlement process going? Any update there?

Bryan Fairbanks
Our spending on claims continues to decline on a year-over-year basis. During the second quarter, our spending was down by 16 percent to $2.6 million, and on a year-to-date basis, it's been down by about 10 percent as well. So we're pleased with the direction that it's moving in at this point, and we will do further analysis as the year goes through and as we get through the busiest part of the season.

John Baugh
Right. And then just a point of clarification. Is the 80 percent incremental guide, is that for the full year '16, or that's for the second half?

Bryan Fairbanks
That is for the full year '16.

John Baugh
Okay. And then, lastly, I don't know, Jim, if you want to comment, but any thoughts about new products as we go into next year, any update there? Thank you.

James Cline
Yeah, John, no update on new products. Typically, the way we handle any new product announcements is we talk about those with our distribution partners first, and that normally would occur in this case, early November, and then we would come back and clarify if there are any new products, to the Street. We are constantly looking at opportunities to develop and introduce to the market those types of products which the consumers are looking for, and we continue to have that robust R&D effort in place.

John Baugh
Okay. And I'm sorry, if I could sneak one more in, did you comment — and I'm sorry if I missed it — on the rail attachment? Is that — is railing going up as a percentage of your mix, relatively stable? Thank you.

James Cline
Railing attachment is moving up slightly. We do have a good attachment rate. It's grown over the last several years quite nicely. We continue to view that as an opportunistic area that we can generate additional revenue from.

John Baugh
Right. Good luck. Thank you.

James Cline
Thank you.

Bryan Fairbanks
Thanks.

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

Morris Ajzenman
Good morning, guys.

James Cline
Good morning, Morris.

Morris Ajzenman
Can you give us any sort of color as far as traction with your dealers, distributors, locations, you know, if you're getting any further share there, how that's playing out?

James Cline
Yeah, we anticipate when the year finishes up, we'll see a very modest expansion in market share, driven by either expansion with the existing dealers or, in some cases, a few new dealers. There have not been any significant changes that have occurred with the dealer base as you saw several years ago, though.

Morris Ajzenman
And is that something we can expect to maintain, that modest level going out to '17 and '18, or might that become more aggressive? How is that going to play out?

James Cline
I believe that the growth that we see will primarily be driven by conversions from wood, which will have the effect of allowing us to gain additional share, but not necessarily taking share from competitors in the alternative wood products category. There is always a little bit of that that occurs, but I don't see any significant opportunities on the horizon at this point.

Morris Ajzenman
Okay. Capacity utilization, I don't think you really talk about it as a number anymore, but, if you do, please share it with us, and, if not, it looks like you're going to have about $480 million in revenues or thereabouts for this year in the 2016. Where could that potentially go to based on the existing infrastructure?

Bryan Fairbanks
We haven't really talked about capacity utilization in the form of a percentage significantly because of the continuous improvement programs that we have in place. A number of years ago, we saw significant improvements which made modeling based off of capacity utilization almost irrelevant at that timeframe. We're continuing to see opportunities within our operations to improve both of our rates, yields, and overall operational efficiencies. We talked in prior quarters that from an overall capacity perspective this year, we thought we'd be running between 50 and 55 percent. We're still on track with that, with the — with where revenues are at this point, so no change from that perspective. And as we move forward, I expect we'll continue to drive improvements within that number, and you can gauge your revenue based off of that.

Morris Ajzenman
Okay. Last question — topline of 7 percent this year — I mean, excuse me — this quarter, any sort of estimate of what you think the industry grew this quarter over the first half to kind of compare up against your numbers and how you think it plays out for the full year for the industry?

James Cline
Yeah, Morris, my expectation, by the time we get done with the year, I think that the industry will see roughly mid single-digit growth. You will see some people with growth at the high end of that. You will see some of our competitors who will see growth at the lower end of the single digit. As I mentioned, our trailing 12 months, including the third quarter forecast, is roughly at 11 percent, so that implies, to me, that we are clearly outpacing the general market conditions.

Morris Ajzenman
Thank you.

James Cline
Thank you.

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

Jim Barrett
Good morning, everyone.

James Cline
Good morning.

Jim Barrett
Bryan, in terms of capital spending this year, the additional $15 million that is expected, is that primarily in building material-related new products, or is that going to be spent on the recycled pellet business?

Bryan Fairbanks
Yeah, it will be primarily in building material-related products and investments within our operations for future efficiencies.

Jim Barrett
Okay. And, Jim, your placement in the UK, Ireland at B&Q, can — I know it's early, but can you give us any sense as to how that — how that is progressing?

James Cline
The B&Q relationship is progressing well. We have been advertising extensively in the UK, and that appears to be having the desired effects that we anticipated. We look forward to expanding that relationship over the next several years and hopefully build a much closer relationship with them.

Jim Barrett
Because they have a much larger store base, I take it that — is this a — essentially a one-year test to — how should — how are you thinking about it?

Bryan Fairbanks
No, I wouldn't expect this to be a one-year test. B&Q is part of the Kingfisher group, and we continue to have discussions regarding other opportunities in Europe.

Jim Barrett
Okay. And then, last but not least, or last and least, rather, the last conference call you noted that the rain impeded deck building in the month of April. Could you talk about to what degree you felt the weather may have impeded the Q2 number?

James Cline
Well, I don't think it was significant. We adjusted in our guidance where we felt the quarter would lie. I can also tell you that as we looked at the month of June, we actually saw a little bit of softness in the latter part of June. Typical market timing — sometimes you find that the consumers decide to take a little sabbatical on their projects. Now, coming out of the month of June, they were back in the market, and we did see it strengthen. So I would say that the month — or, I'm sorry — the second quarter is a typical second quarter, a little bit slow in the front end, maybe a little bit slow in the rear end, but the middle was very strong.

Jim Barrett
Well, thank you both very much.

James Cline
Thank you.

Operator
Again, if you have a question, please press star, then 1 on a touchtone phone. The next question comes from Michael Conti of Sidoti & Company. Please go ahead.

Michael Conti
Hey, good morning.

James Cline
Good morning, Michael.

Michael Conti
Yeah, can you just talk about any customer additions in the quarter and maybe just provide us with the year-over-year growth to your big box customers? I'm just trying to get a sense of any market share gains with your products over your wood-based competitors.

James Cline
Yeah, with regard to conversion of wood, we just started the campaign this year. As we mentioned before, this will be a multi-year campaign. While directionally we are seeing the interest, we believe the drive to wood will take place — begin to really take place more in next year and the following year. So it's very difficult to see — to see that in the numbers, especially as we look at the numbers throughout the year. Really, you need to look at a full year to really determine whether or not that movement's occurring.

We're seeing good growth across the full breadth of the market, big box as well as the two-step distribution model. So it's a very balanced growth that we're seeing, and I believe that's probably representative of the entire market since we're such a large portion of that share.

Michael Conti
Sure. Okay. And then, I guess, adjusting last year for the scrap poly sales, it looks like guidance is more around 15 percent, and I know you mentioned insufficient inventory coming from the distribution channel, but are there any one-time projects in there that maybe skewed that number upward, or was it — I mean, you cited softness in June, are you seeing more of a pent-up demand in the third quarter?

James Cline
Yeah, I think when — what we saw in July was the fact that the inventories went down a little bit too far, and they were right-sized in the — in the July time period, but we believe that the market continues to be strong. When we look at the activity we see on our website, we anticipate that the third quarter is going to continue to be a fairly strong business environment for decking and railing.

Michael Conti
And there weren't any one-time projects in there?

James Cline
No significant one-time projects.

Michael Conti
Okay. And my last one, it looks like you had a price increase on the Transcend line. How should we think about price for the remainder of 2016?

Bryan Fairbanks
We announce our pricing to our distribution and channel partners prior to any other actions we would do. We did take pricing on our Transcend Classic line in October of last year, but right now there's nothing on the drawing board. We'll be meeting with our distributors late in the fourth quarter, and any pricing actions would be talked about in that timeframe.

Michael Conti
Great. Thank you.

Operator
This concludes our question-and-answer session. I would like to turn the conference back over to Jim Cline, President and Chief Executive Officer, for any closing remarks.

CONCLUSION

James Cline
Again, thank you for joining us for our business outlook and financial results. We look forward to talking more about the third quarter in — in our next conference call. That conference call will be scheduled to also be after our distributor meeting, so we'll be able to give you a little bit more color on where we believe the market is headed in 2017 as well as the end to the period in 2016.

Thanks again for joining us. Have a god day.

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