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# EDITED TRANSCRIPT

Q3 2018 Trex Company Inc Earnings Call

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## CORPORATE PARTICIPANTS

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**William R. Gupp** *Trex Company, Inc. - Senior VP, General Counsel & Secretary*

## CONFERENCE CALL PARTICIPANTS

**Alexander John Rygiel** *B. Riley FBR, Inc., Research Division - Analyst*  
**John Allen Baugh** *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*  
**Keith Brian Hughes** *SunTrust Robinson Humphrey, Inc., Research Division - MD*  
**Matthew Schon McCall** *Seaport Global Securities LLC, Research Division - MD and Furnishings & Senior Analyst*  
**Trey Grooms** *Stephens Inc., Research Division - MD*

## PRESENTATION

### Operator

Good evening, and welcome to the Trex Company Third Quarter 2018 Earnings Conference Call. (Operator Instructions) Please note, today's event is being recorded.

And with that, I'd like to turn the conference over to Viktoriiia Nakhla. Please go ahead.

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### Viktoriiia 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 market close containing financial results for the third quarter of 2018. This release is available on the company's website. And 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?

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### William R. Gupp *Trex Company, Inc. - Senior VP, General Counsel & Secretary*

Thank you, Viktoriiia.

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.

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### James E. Cline *Trex Company, Inc. - President, CEO & Director*

Thank you, Bill, and thank you all for participating in today's call to review our third quarter performance and our business outlook.

As you have seen, this is another very strong quarter for Trex. Sales growth was 23%, excluding the onetime \$6 million charge, and reflects a solid double-digit growth in both our Residential and Commercial segments.



In Residential Products, we continue to see strong consumer demand in the quarter, reflecting a favorable macroeconomic environment and our brand leadership, which enables us to gain a disproportionately greater share of the sector growth. We also believe our focus and branding campaign on conversion from wood has benefited our business partners and continues to drive that additional growth.

Latest data from The Conference Board indicates that the Consumer Price Index improved in August and increased further in September. Positive trends in the repair and remodeling industry continue to drive growth in remodeling spend.

In September and October, we did see a reduction in distributor demand related to rebalancing of their inventory due in part to the announced new product introduction of Transcend 2.0. Our channel checks have confirmed that the professional and consumer demand has continued to experience strong double-digit growth for repair and remodeling customers in North America throughout October.

Trex is also differentiated in the marketplace by our ongoing product development investments. We continue to focus on both improving our existing offering and introducing new products to the market that will further expand our market reach.

We noted in today's earnings release that the \$6 million charge to revenue in the third quarter was tied to an expansion of stocking product positions in all residential sales channels. A portion of this charge is related to our announced strengthening of our distribution footprint in the central region. While we are not providing further detail today related to that expected growth in sales beginning in 2019, we would not incur a charge of this magnitude if we did not believe it carried a strong multiyear benefit to sales and earnings. In addition, we see this as a significant opportunity to expand our relationships with our Residential business partners. We expect growth from these expanded relationships to begin being realized in the second quarter of 2019.

We were able to convert our strong third quarter Residential sales performance into an even greater growth in operating profit, thanks to several factors that Bryan will discuss in a few minutes. Operating leverage is a key part of the Trex business model.

In addition, we continue to invest in projects that lead to strong manufacturing cost savings. A great example is the first phase of our production line improvement project that will increase throughput in our Winchester facility by over 20% in 2019. Based on the results that we have seen to Phase 1 and trials related to lines operating with Phase 2 enhancements, we have decided to accelerate our investment in Phase 2 of our throughput enhancement project. As a result, we will be expanding our capital spend in 2018 to \$30 million to \$35 million. We'll provide further details on our progress in our February earnings call.

Turning to Commercial Products. Third quarter results continue to demonstrate the very positive improvements that the Commercial team has accomplished over the last 9 months. Revenue was up on a pro forma basis year-over-year by 28%. Gross margin improved 130 basis points over the second quarter of 2018 to 25.9%. This improved profitability is in line with the expectations we had for second half results. Trex Commercial Products also introduced a new product, Ascent, a post-supported glass windscreen designed for commercial exterior use.

To sum it up, our year-to-date underlying results reflects the positive trends that underpin our substantial growth. If you exclude this quarter's onetime charge, consolidated revenue for the 9 months of 2018 was up 24% and, on the same basis, earnings before taxes increased 29% and diluted earnings per share was up 48% to \$1.93 compared to the prior year, all representing an excellent showing.

At this point, I'd like to turn the call over to our CFO, Bryan Fairbanks, for the financial review. Bryan?

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**Bryan Horix Fairbanks *Trex Company, Inc.* - Executive VP & CFO**

Thank you, Jim. Good evening, everyone. We are pleased to report another record quarter across many key financial metrics and to review major components of our strong third quarter performance.

Third quarter 2018 consolidated net sales were \$166 million, reflecting an increase of 19% year-over-year, driven by higher volumes. This growth included the unfavorable impact from a onetime \$6 million charge related to expanding our stocking positions in residential sales channels. Without it, our consolidated net sales would have been \$172 million.



Trex Residential Products net sales were \$147 million, representing 12% organic growth. Excluding the onetime charge that I just mentioned, Residential sales would have amounted to \$153 million or a 17% increase over the last year's third quarter, demonstrating the strong demand that we're seeing for our superior decking and railing products.

Trex Commercial Products contributed \$19 million to the quarter, which represented the strongest performance since we entered the commercial market with the acquisition of SC Company on July 31, 2017.

Consolidated gross margin in the third quarter was 40.4%, 100 basis points ahead of the 39.4% reported in the third quarter of 2017. Trex Residential Products gross margin expanded by 170 basis points to 42.3%. Excluding the \$6 million onetime charge, Residential gross margin would have expanded 400 basis points to 44.6%. We continue to benefit from ongoing manufacturing cost-saving initiatives, higher utilization and lower recycled polyethylene input costs. Each of these benefits accounts for approximately 1/3 of the improvement. These benefits more than offset increased freight and increased raw material costs.

Trex Commercial Products gross margin showed continued sequential improvement in the third quarter compared to the second quarter, expanding by 130 basis points to 25.9%, in line with our expectations. We expect this trend related to gross margin to continue in the fourth quarter as project execution improves and lower margin legacy contracts continue to roll off.

SG&A expenses in the third quarter of 2018 were \$28 million. The total dollar amount increased by \$3 million due to primarily higher personnel and branding-related expenses. As a reminder, the intangible expense related to the SC acquisition has been fully amortized and will not impact SG&A going forward. As a percentage of revenue, SG&A was 16.9% compared to 17.8% in the year-ago quarter.

Net income was \$30 million or \$0.50 per diluted share, both up 47% from \$20 million or \$0.34 per diluted share reported in the third quarter of 2017. Approximately 2/3 of this growth was attributable to our strong operating performance with the remainder due to a lower tax rate. Without the charge, our diluted EPS was \$0.57, representing a 68% year-on-year growth.

To briefly sum up our performance for the first 9 months of 2018, we reported \$544 million in consolidated net sales, up 23% year-on-year, with organic revenue totaling \$491 million and our Commercial business contributing \$53 million. Net income was \$109 million or \$1.85 diluted earnings per share, up 42% from \$1.30 per diluted share in the comparable 2017 period. Year-to-date capital expenditures were \$22 million, consisting primarily of \$13 million for general plant cost reduction initiatives and other production improvements and \$6 million for certain internet domain-related investments.

Our capital allocation priorities remain the same: Reinvesting in the business, funding acquisition opportunities and repurchasing shares. As a reminder, we have 5.5 million shares remaining under the buyback program authorized by the Board of Directors in February of 2018.

For financial modeling purposes, please note the following items. We reaffirm our expectation for full year 2018 consolidated incremental gross margin of approximately 45% to 50%. SG&A is expected to be approximately 17.5% of sales for the full year. We expect the 2018 tax rate to be approximately 25% and we now expect full year capital spending to be between \$30 million and \$35 million, reflecting additional investments in manufacturing and pull-ahead of certain 2019 investments.

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

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**James E. Cline *Trex Company, Inc. - President, CEO & Director***

Thank you, Bryan.

Year-to-date results have put us on track for another record year in 2018. Achievements so far this year have positioned us for another year of strong results in 2019. We expect 2019 to be another strong year for the residential sector, which accounts for 83% of our first 9 months sales. The Residential segment has historically correlated with consumer confidence and remodeling growth.

As we plan for 2019, we expect a favorable business environment and have strategically positioned the company to accelerate our share

gains in the decking and railing market. With approximately 8% of the lineal feet sold in North America residential decking and railing market, Trex clearly has a significant runway for continued growth. After our sales and distributor meeting next week, we will provide additional color on some of the exciting developments that we are driving our expectations for a greater share gain.

The focus of our growth in 2019 will be clearly going after a much greater portion of the wood market. At the same time, we should benefit from increased throughput, additional manufacturing cost-savings projects and continued development of our Commercial Products business. As we look to 2019, we also see an opportunity to continue to expand margins as we invest in our personnel and the business to take advantage of a number of meaningful cost reduction initiatives.

Over the near term, our guidance is for consolidated net sales of \$131 million for this year's fourth quarter comprised of \$115 million for Trex Residential and \$16 million for Trex Commercial Products. Excluding the \$6 million onetime charge, this would bring full year 2018 consolidated sales growth to 21% and the Residential sales growth to 13%.

I'd like to remind the participants, the fourth quarter and the first quarter are stocking quarters to ensure that dealers and distributors have the appropriate level of product on hand to support breaks in the winter weather and are available for early spring shipments.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Today's first question will be from Alex Rygiel with B. Riley FBR.

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### Alexander John Rygiel B. Riley FBR, Inc., Research Division - Analyst

Could we come back to the comment with regards to the activity in September and October? Could you go into a little bit greater detail on that?

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### James E. Cline Trex Company, Inc. - President, CEO & Director

Certainly. Two things of interest -- maybe 3 things of interest there. First of all, we introduced a new product called Transcend 2.0. It relate -- it replaces the monochromatic Transcend products. And as we introduced that, we did anticipate and did see a reduction in inbound demand for orders for the old products. Because of the Early Buy Programs we have in place in December, we anticipated people would be moving out certain demand requirements at that point. We also believe that there was rebalancing being done within the distribution channel where they may be were a little heavy on one product, a little light on others, but in aggregate, it was a net slowdown from distributor demand.

Having said that, as we looked at the marketplace where the consumers and the professionals are buying their product, we did see continued strong double-digit demand occurring on those accounts that focus on repair and remodel.

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### Alexander John Rygiel B. Riley FBR, Inc., Research Division - Analyst

And in light of the broader market weakness over the last few months with regards to new home construction, can you comment on if you've seen any of that slowdown in particular within in your business? Clearly the numbers don't reflect it and understanding that the vast majority of your products are being sold through the R&R channel. But if you could just sort of comment on the macro market and how you see it affecting your business over the last few months or how it could over the next 6 months.

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### James E. Cline Trex Company, Inc. - President, CEO & Director

Yes. As you mentioned, we're about 95% repair and remodeling in the Residential segment of the business. We see very little impact on that. However, we do have some accounts that are primarily driven by new home construction and we did see them being impacted by that.

As people stay in their homes longer, that is a net plus for the repair and remodeling segment. We see an opportunity should that



continue for an extended period of time as long as consumer confidence remains elevated. New home construction does not have a direct impact on our business by itself, but as that segment starts to slow, if it affects consumer confidence, it could have an impact on our business.

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**Operator**

Today's next question will be from John Baugh with Stifel.

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**John Allen Baugh Stifel, Nicolaus & Company, Incorporated, Research Division - MD**

I was wondering just -- I know you don't want to discuss the central division or what's going on there, but could you just physically tell us what the accounting is or what physically is taking place that would require the \$6 million revenue and earnings hit?

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**Bryan Horix Fairbanks Trex Company, Inc. - Executive VP & CFO**

So we did announce a change in distribution in the central territory last week. There's a certain portion of the reduction in revenue related to that change. And then there are other changes within the channel that we were required to recognize through the revenue line that we will see the benefits for that starting in the second quarter of 2019.

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**John Allen Baugh Stifel, Nicolaus & Company, Incorporated, Research Division - MD**

So Bryan, so I guess, you're reversing revenue. You ship product to distributor whom you're, I guess, parting ways with. And that's a one-for-one kind of profit or revenue impact or...

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**Bryan Horix Fairbanks Trex Company, Inc. - Executive VP & CFO**

The \$6 million charge, yes, it just flows through directly. There's no cost of goods sold impact directly where that change is. Just \$6 million on the top line, which flows through.

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**James E. Cline Trex Company, Inc. - President, CEO & Director**

John, just to be clear, the \$6 million did not just relate to the Midwest distribution. It related to a much broader class of customers, both in the, as we mentioned, the 2-step distribution channel as well as the retail channel.

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**John Allen Baugh Stifel, Nicolaus & Company, Incorporated, Research Division - MD**

Okay. And then the 400 basis point improvement in gross margin, that's impressive. What -- help us again, just so we're clear. The 45 to 50, that's, one, the consolidated company; and 2, does that include or exclude the \$6 million charge?

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**Bryan Horix Fairbanks Trex Company, Inc. - Executive VP & CFO**

That excludes the \$6 million charge.

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**John Allen Baugh Stifel, Nicolaus & Company, Incorporated, Research Division - MD**

Okay. Okay. And it's across the company?

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**Bryan Horix Fairbanks Trex Company, Inc. - Executive VP & CFO**

It's on a consolidated basis. And the type of performance that we saw was consistent with prior quarters and the 3 key items that have been driving our performance: The cost-saving initiatives, utilization and reduced costs of polyethylene.

And what's key on the polyethylene side, we talked a little bit about this last quarter, it's not as much from just pure negotiation of lower priced material. It's going out and finding different sources of material that may not necessarily be in the recycling stream and then, through our technology, the know-how to be able to introduce it into our systems.

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**John Allen Baugh Stifel, Nicolaus & Company, Incorporated, Research Division - MD**

Okay. And then you mentioned accelerating the projects. Is this one of those things where I'm sure they are a long-term benefit, but maybe there's some short-term costs or something? Obviously, you're guiding the incremental for the year and I assume a lot of that is going to get picked up in the cost of goods. So I assume that the acceleration really won't change the flow-through dramatically?

**James E. Cline *Trex Company, Inc. - President, CEO & Director***

Well, certainly, we'll be running a number of trials as we bring additional lines on. Each line will go through its own series of trials. And there will be expenses associated just like there was this past year as we began bringing up the line -- each individual line on Phase 1, but that was included in the guidance that I provided that we believe we'd see incremental margins occurring in 2019.

**John Allen Baugh *Stifel, Nicolaus & Company, Incorporated, Research Division - MD***

Okay. And then lastly, on the acquisition of Fiberon by Fortune Brands, I was curious, Jim, if you had any reaction to that. I know, among other things, in the past, you've talked about an opportunity perhaps to do more private label with the home centers. And just curious if that -- the prospects of that changed at all or if you have any other color on that transaction if you had it.

**James E. Cline *Trex Company, Inc. - President, CEO & Director***

Sure. The relationship that Fiberon has had with one major retailer has been there a long time. It's a deep relationship. I wouldn't imagine, absent a disruptive change, that they would make a change in that relationship. It's our job to figure out if we can make a disruptive change that could cause that retailer to make a change and move more product and commitments to Trex. And certainly, we would be interested in that. We are engaged with all of our major customers and trying to bring a greater array of product to them to encourage them to expand that relationship with Trex.

**Operator**

Next question will be from Matt McCall with Seaport Global Securities.

**Matthew Schon McCall *Seaport Global Securities LLC, Research Division - MD and Furnishings & Senior Analyst***

So maybe let's start with the Q4. I just want to make sure -- I tried to listen to all the kind of puts and takes you gave. You said that the Q4 and Q1 are kind of the stocking periods. You had the kind of the impact of the rebalancing assumption around Early Buy in December, yet the growth's only projected to be up around 5% in residential. Is there something else going on? Now I know the comps are not necessarily easy, but you've had tough comps before. Is there something else going on that we need to think about in terms of the relative growth rate projected in Q4?

**James E. Cline *Trex Company, Inc. - President, CEO & Director***

Yes. We view this as really a timing element. Certainly, the reduced demand in the latter part of the third quarter from distribution as they pulled their inventory down, we anticipate part of that will come back in the first quarter as opposed to the fourth quarter. It's just a matter of timing.

The fourth quarter is typically when we load dealers in. The dealer direct normally takes place at that point. It's not an exceptionally strong distribution play at that point. And therefore, we would not expect to make that up in the fourth quarter.

**Matthew Schon McCall *Seaport Global Securities LLC, Research Division - MD and Furnishings & Senior Analyst***

And any quantification of the delays and what kind of gets pushed out into Q1?

**James E. Cline *Trex Company, Inc. - President, CEO & Director***

The products that I would estimate would be pushed out would be the new Transcend 2.0 monochromatic product.

**Matthew Schon McCall *Seaport Global Securities LLC, Research Division - MD and Furnishings & Senior Analyst***

Okay. Bryan, you again talked about the 1/3, 1/3, 1/3, the savings, the roll in and then the leverage from growth. What is -- is that what is in the assumption for Q4? And is there anything that will change that mix? As we look out in the next year, the Phase 2 benefits come to mind. Is that another capacity opportunity or is that going to be more tied to cost saves?

**Bryan Horix Fairbanks *Trex Company, Inc. - Executive VP & CFO***

The improvement that we're expecting over the course of the full year is inclusive of the incremental guidance that's provided. We don't try to break it down into each one of the categories. It has been fairly consistent through the first 9 months of the year, but we're not trying to guide exactly which categories they come from as we look at the rest of this year.

As we look into next year, with the investments that we're making where we see the market going, this is a management team that keeps its eye on the ball as it relates to gross margin. We expect there will be additional opportunity there.

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**Matthew Schon McCall Seaport Global Securities LLC, Research Division - MD and Furnishings & Senior Analyst**

So is the Phase 2 project, is it very similar to Phase 1 and that you're trying to open up some new capacity to serve future growth? Or are you going to grow into Phase 1 and maybe recognize some savings on Phase 2? I'm just trying to figure out how it's similar or different to what you're doing this year.

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**James E. Cline Trex Company, Inc. - President, CEO & Director**

Yes. Phase 2 is similar to what we did with Phase 1. Phase 1 gave us initially 20%. We're still working through opportunities on Phase 1. With the Phase 2, we have long lead times on some of that equipment. So it will come in later in the year, but we needed to get rolling on it earlier. We're ready to make those changes. We've got several lines that will be up and running in the first quarter with Phase 2. And based on what we've seen from the initial lines that we put in place, we're pretty excited about what it's going to do for us.

It's really twofold. It gives us a better product and it will reduce costs, but more importantly, it gives us additional throughput.

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**Matthew Schon McCall Seaport Global Securities LLC, Research Division - MD and Furnishings & Senior Analyst**

Okay. Okay. And then, I guess, the last question. I just want to make sure -- I think it was John that asked it, the mechanics of the charge, I just want to make sure that was both the central region announcement you made last week and that was also tied to the residential opportunity, the residential win that you had, and both of those will show up in Q2 in better growth?

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**Bryan Horix Fairbanks Trex Company, Inc. - Executive VP & CFO**

It will show up in Q2 as better growth. It's related to all of the channels, not just the distribution channel.

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**Operator**

Next question will be from Keith Hughes with SunTrust.

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**Keith Brian Hughes SunTrust Robinson Humphrey, Inc., Research Division - MD**

I hate to keep asking about the same thing but on this charge. I understand on Midwest, effectively you're buying back inventory, I would assume, and reversing that sale. How does that relate to other distribution points then?

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**Bryan Horix Fairbanks Trex Company, Inc. - Executive VP & CFO**

From the other distribution points?

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**Keith Brian Hughes SunTrust Robinson Humphrey, Inc., Research Division - MD**

Yes. Why would they be included in that?

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**Bryan Horix Fairbanks Trex Company, Inc. - Executive VP & CFO**

So there are activities that we're taking that will affect the market next year. And from a statutory perspective, we're required to recognize that change in revenue, but we're not getting into the specific details of exactly what those changes are at this time.

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**Keith Brian Hughes SunTrust Robinson Humphrey, Inc., Research Division - MD**

Okay. But there's no quality issues that have come out of the product? Is that correct?

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**Bryan Horix Fairbanks Trex Company, Inc. - Executive VP & CFO**

No. No.

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**Keith Brian Hughes SunTrust Robinson Humphrey, Inc., Research Division - MD**

Okay. And, I guess, second question. I know you have your dealer meeting coming up soon, but any sort of change in stance of your dealers as they think about '19, given some of the new housing stuff, which is a big part of the dealers' business, not your business, but the other businesses? Any sort of stance of how they're looking at the year and thinking about inventory and things of that nature?

**Bryan Horix Fairbanks Trex Company, Inc. - Executive VP & CFO**

So the dealers are coming off of a strong year and all the indicators are that things will continue strong. We see consumer confidence continues at high levels. As Jim mentioned, if there's a significant change in housing that affects consumer confidence, we can see that flow through more so to our channel. But right now, there's a high level of optimism moving into 2019.

**Operator**

(Operator Instructions) The next question will be from Trey Grooms with Stephens.

**Trey Grooms Stephens Inc., Research Division - MD**

So on wood conversion, I know you guys were targeting kind of a 1 percentage point conversion there, I guess, it was back in July. Are we -- just as an update, and sorry if I missed it, but are we still, in your opinion, kind of on track to hit that for this year?

And then also, kind of looking into next year, lumber prices have come down some, clearly after a big bump earlier this year. Is your outlook for that -- I know you mentioned to say you expect this to continue in '19, but are you thinking a similar rate as we go longer term or will the lumber price change impact that at all in your opinion?

**James E. Cline Trex Company, Inc. - President, CEO & Director**

Yes. There's a couple of things to look to. Number one, on pressure-treated lumber, we didn't see a significant change in the pricing at retail for pressure-treated lumber. So there's relatively little impact due to the run-up in prices or the run-down. Other commodities such as cedar and redwood, those prices went up. They remain somewhat elevated. And I think, on the West Coast, you'd find that we saw a very good market for Trex as people looked at the benefits of wood alternative versus those products and voted that they like the reduced maintenance associated with our products and, therefore, moved in that direction.

We don't see that part of it changing. In fact, we believe we will see an acceleration of conversion from wood over time. It's not going to be a step jump, but we think each year it's going to get a little bit stronger as we're able to penetrate a little bit further with customers that are open to the wood alternative solutions that we have in place.

**Trey Grooms Stephens Inc., Research Division - MD**

Okay. Got it. And just more kind of housekeeping, on the Commercial business gross margins, quite a good showing here this quarter. Just without as much history to go on there, how seasonal are the margins on that business? I mean, I know you kind of reiterated the incremental margin for the -- for overall, but just looking specifically at that business on the Commercial side, is there a -- should we expect a significant change in -- from one quarter to next just based on seasonality there?

**Bryan Horix Fairbanks Trex Company, Inc. - Executive VP & CFO**

There isn't as much seasonality to the business from a gross margin perspective. There is, to a certain extent, from a revenue perspective, as we get later in the year, especially with major projects. As we've talked about in the past, the biggest driver is that some of these projects, they will move from quarter to quarter when the revenue is recognized. So you will see more lumpy growth figures on that. And with that lumpiness in the growth, you'll have the lumpiness in the gross -- pure gross margin dollars, not necessarily the percentage.

**Trey Grooms Stephens Inc., Research Division - MD**

Understood. Okay. And then lastly, and this might not be the right discussion for this, but really just trying to get a sense for -- you guys rolled out this new -- the new product, Transcend 2.0. Just anything you can give us on really how that differs? And there must be some significant change if folks are kind of dialing back purchasing ahead of that. So just any kind of color you could give us on that and where the differences lie, any changes in warranty or anything like that?



**James E. Cline *Trex Company, Inc. - President, CEO & Director***

Yes. Basically, what you see with that product is an improved aesthetic. It is not substitutable for the old Transcend monochromatic, so they can't be interchanged. So that is why we believe people will run their inventories down and exit that as quickly as they can, but they'll want to run it all out before they start bringing the new material in, but really improved aesthetics.

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**Operator**

Next question will be a follow-up question from Keith Hughes with SunTrust.

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**Keith Brian Hughes *SunTrust Robinson Humphrey, Inc., Research Division - MD***

Yes. Just a quick question on Transcend 2.0. Price-wise, where does that fall in the -- versus products that are replaced in the spectrum of Transcend?

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**James E. Cline *Trex Company, Inc. - President, CEO & Director***

Yes. It's priced at the same price point. So it's priced at exactly the same price point today as the old one was.

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**Operator**

At this time, this will conclude today's question-and-answer session. I'd like to turn the conference back over to Jim Cline for any closing remarks.

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**James E. Cline *Trex Company, Inc. - President, CEO & Director***

Well, thank you for your interest and support of the Trex Company.

We believe that the expanded business relationships and the development of closer partnerships will be beneficial to both our customers and to Trex. For 2019, the impact on sales and earnings will be significant and we expect that subsequent years will also continue to realize expanded sales growth as we continue our focus on wood and expand our stocking relationships.

We look forward to seeing investors and analysts at the upcoming conferences and to meet with our customers at our distributor meeting next week. Thank you.

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**Operator**

The conference has now concluded. I want to thank you for attending today's presentation. And at this time, you may now disconnect.

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