



**Trex**<sup>®</sup>

Trex Company Investor Presentation

NYSE: TREX

March 2012

# Safe Harbor Statement

**Trex®**

HOW OUTDOOR LIVING SHOULD FEEL.

This presentation contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements are subject to risks and uncertainties that could cause the Company’s actual operating results to differ materially from those contemplated by the forward-looking statements. For further information on risk factors affecting the Company’s business, please refer to our most recent annual and quarterly reports filed with the Securities and Exchange Commission. 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.



# Investor Presentation

- ▶ Company Overview
- ▶ Markets & Competitive Landscape
- ▶ Products
- ▶ Management Achievements
- ▶ Current Initiatives & Strategic Objectives
- ▶ Financial Performance



# Company Overview

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# Company Overview

- ▶ \$300MM manufacturer of wood-alternative decking, railing, porches, deck substructures and trim
- ▶ Best-in-class product platform
- ▶ Unsurpassed channel position: ~ 5,000 retail outlets
- ▶ Strong brand identity: industry-leading awareness
- ▶ World-class low-cost manufacturing method
- ▶ Eco-friendly product – 95% recycled raw material content
- ▶ Strong management team

# Leader in Alternative Outdoor Living Products



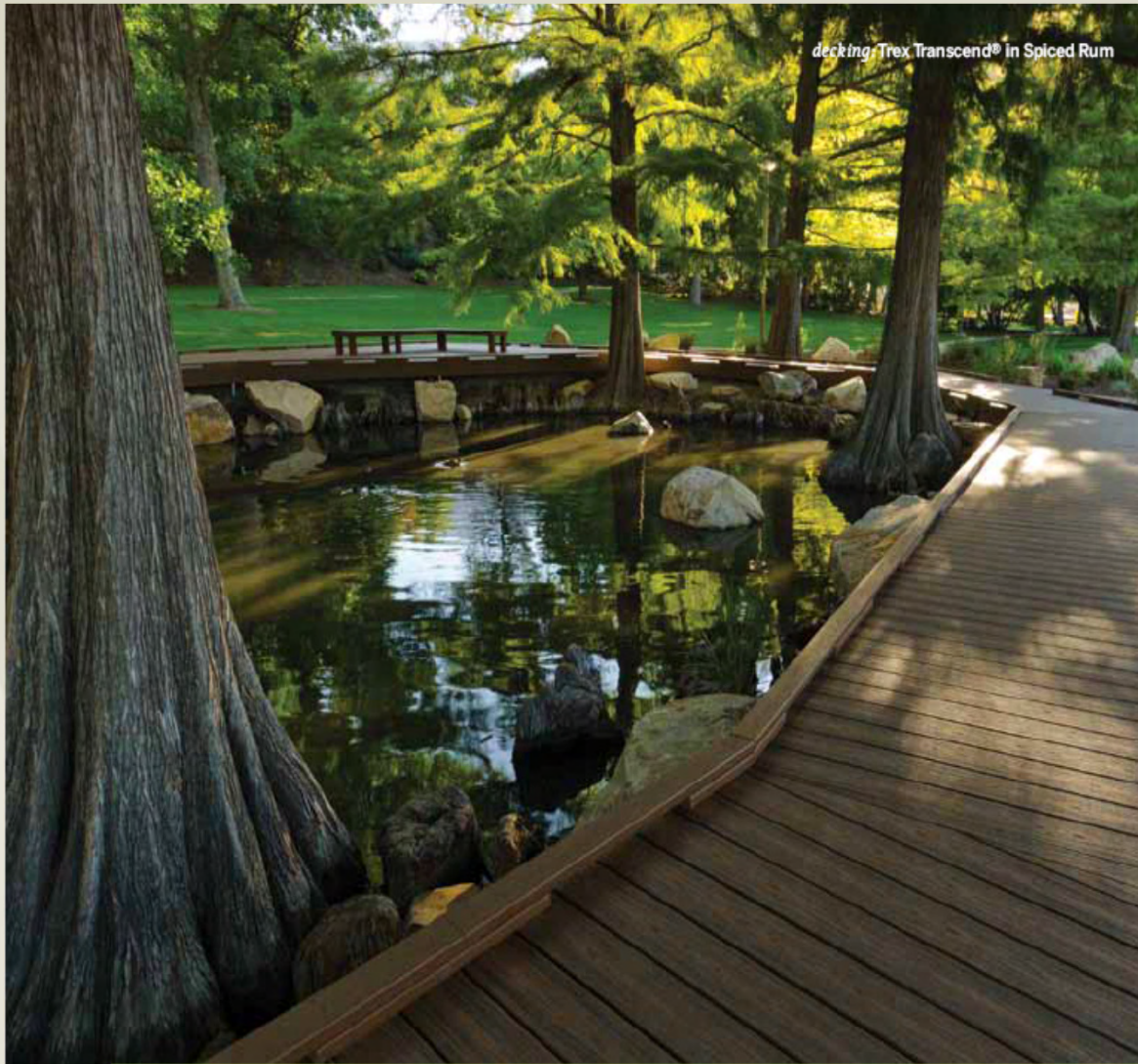
- ▶ 2011 Financial Results
  - ▶ Sales of \$267MM
  - ▶ EBITDA<sup>(1)</sup> of \$31MM
- ▶ Growth strategy moving forward
  - Target: 50% market share
    - ▶ Expand Trex Transcend® technology
    - ▶ Launch new products
    - ▶ Pursue profitable acquisitions
    - ▶ Enter licensing partnerships
      - ▶ Four since 2010
    - ▶ Develop international markets

(1) EBITDA excludes certain unusual charges as described in the Company's SEC filings





# Trex's "Green Story"



## Statistics:

- We keep **400MM** pounds of plastic and wood scrap out of landfills every year
- **3.1B** plastic bags used to manufacture Trex products in 2011
- A Trex composite deck contains **140,000** recycled plastic bags
- **Trex uses 70%** of all plastic bags recycled through in-store collection programs
- **Zero** trees cut down to manufacture Trex products



# Markets and Competitive Landscape

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# Markets

- ▶ \$170 billion residential home improvement market<sup>(1)</sup>
- ▶ Trex residential markets: \$7.3 billion
  - ▶ Decking & Railing \$3.2 billion
  - ▶ Deck substructure \$2.0 billion
  - ▶ Porch \$1.0 billion
  - ▶ Exterior Trim \$1.1 billion

## Market Drivers

Trend to outdoor living  
Superior aesthetics  
Lower maintenance  
Eco-friendly

## Economic Drivers

Repair & remodeling activity  
Sale of existing homes  
Consumer confidence  
Disposable income

## Sources

- (1) Joint Center for Housing Studies of Harvard University  
Principia Partners Home Improvement Research Institute

# Decking & Railing Market: \$3.2B

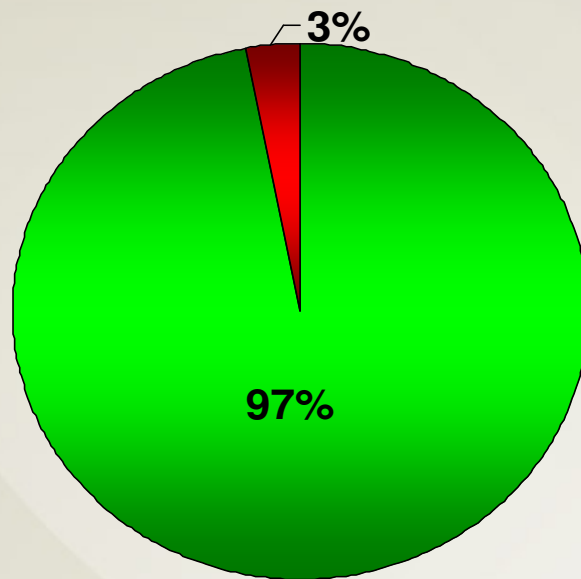
- ▶ Primary driver: residential remodeling activity
  - ▶ 2.8MM residential decks built in 2010
  - ▶ 95% as additions to existing homes or replacing older decks
- ▶ Significant replacement potential in installed base of 40MM decks nationwide
- ▶ Low-cost method of adding living space
  - ▶ Deck additions rank in top five remodeling projects for resale value
- ▶ Favorable underlying trends
  - ▶ Outdoor living
  - ▶ Green building
  - ▶ Brand value



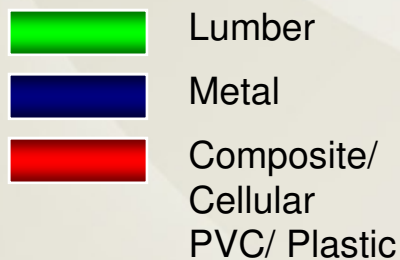
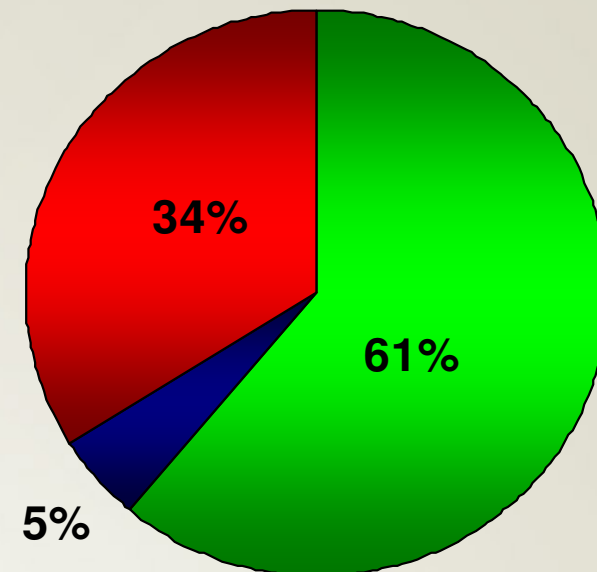
# Decking & Railing Composite Residential Market Penetration



1999



2010



- ▶ Composite products rapidly gaining market share
- ▶ Offer better aesthetics, functionality and durability than wood
- ▶ Composite market share increased 31% from 1999 to 2010

# Decking & Railing Competitive Landscape

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Industry-leading 35% share – up 5% in 2010

## Decking & Railing Composites Market Share

	2008	2009	2010
Trex	30%	30%	35%
Timbertech	16%	16%	14%
Fiberon	12%	12%	14%
Azek	6%	10%	13%
AERT	9%	8%	7%
Tamko	8%	7%	5%
UFPI	7%	6%	5%
GAF*	2%	3%	3%
All Others	10%	8%	4%
	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Composites Market

Composite residential sales (\$MM)	\$930	\$757	\$784
Composite non-residential sales incl. Porch (\$MM)	\$128	\$107	\$106
<b>Total Composite Sales (\$MM)</b>	<b>\$1,058</b>	<b>\$864</b>	<b>\$890</b>

## Since 2006 several composite manufacturing companies have exited the marketplace

1. \*Q3 2011 GAF DuraLife product line (formerly CorrectDeck and ELK CrossTimbers)
2. Monarch -- John A. Biewer Co, Inc.
3. Green Tree
4. LP Building Products (WeatherBest)
5. Brite Manufacturing
6. Carney Timber
7. CPI (Eon)
8. CertainTeed (Boardwalk)

Fallout could continue as a result of competitive and economic factors





# Products

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# Trex is the “Total Package”

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Trex offers everything necessary to create a dream outdoor living space – from the bottom up.



# 2012 PRODUCT FOR EVERY SEGMENT

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## Accents

“Natural Beauty”



**\$2.50/FT**

- Good Looks
  - Natural wood grain
  - 4 Rich colors
- Good Performance
- Soft, Splinterless Comfort
- Earth Friendly
  - 95% recycled
- Standard Warranty – 25yrs

## Enhance

“Enriched Beauty & Performance”

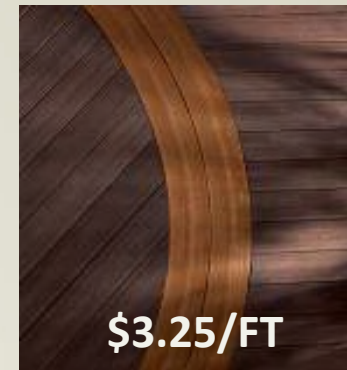


**\$2.89/FT**

- Better Looks
  - 2 natural, earth-tone colors
- Better Performance
  - Good Scratch, Stain, Fade & Mold Resistance
  - Proprietary Shell Technology
  - Cleans with Soap & Water
- Earth Friendly
  - 95% recycled
- 20 yr fade & stain warranty

## Transcend

“Unsurpassed Beauty & Performance”



**\$3.25/FT**

- Excellent Looks
  - Distinctive, High definition wood grain pattern
  - 5 Rich earth tone colors
  - 2 Tropical colors
  - 5 Matching Railings
- Excellent Performance
  - Superior Scratch, Stain, Fade & Mold Resistance
  - Proprietary Shell Technology
  - Cleans with Soap & Water
  - Class B fire rating
- Earth Friendly
  - 95% recycled
- 25 yr fade & stain warranty

# Trex Transcend Decking & Railing



## Key Features:

- 2010 game-changing product introduction
- Outperforms wood, traditional composite and PVC for decades
- Unparalleled durability and wear-resistance
- High-definition wood grain pattern and 7 lush colors – including tropical-inspired shades
- Consists of 95% recycled material
- Industry-leading 25-year Limited Fade and Stain Warranty



# Trex Transcend Porch Flooring & Railing System



## Key Features:

- The first fully-packaged porch system on the market
- Offers the durability and aesthetics of Trex Transcend
- Includes virtually gap-free floor boards with coordinating posts and railings
- Available in 3 colors

# Trex Elevations™

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## TREX: FIRST TO MARKET

### Key Features:

- Deck framing system manufactured of dual-coated galvanized steel
- Offers superior durability and stability vs wood
- Increases the lifespan of any deck
- 25-year limited warranty complements Transcend decking's warranty
- Reduces substructure construction time
- Increases homeowner satisfaction



# Other Trex Products-- Licensing Agreements

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## ► Trex Outdoor Furniture



## ► Trex RainEscape



## ► Trex Pergola



## ► Trex CustomCurve





# Management Achievements

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# Executive Officers



## **Ron Kaplan: 4 years with Trex**

### **President, CEO & Chairman of the Board**

- CEO of Continental Global Group
- 26 years in senior positions with Harsco

## **Jim Cline: 4 years with Trex**

### **Vice President & CFO**

- President of Harsco GasServ
- 11 years in senior positions with Harsco
- 18 years in senior finance positions with Huffy

## **Tim Reese: 4 years with Trex**

### **Vice President, Operations**

- Operations Director for Dupont Teijin Films
- 29 years with DuPont in senior operations positions

## **Mitch Cox: 6 years with Trex**

### **Vice President, Sales**

- 24 years with Kraft Foods in senior sales positions

## **Adam Zambanini: 6 years with Trex**

### **Vice President, Marketing**

- 6 years with Rubbermaid, a manufacturer of plastic products, in senior marketing positions

## **Bill Gupp: 10 years with Trex**

### **Vice President & General Counsel**

- 8 years with Harsco in senior legal positions

# Achievements

## December 31, 2007 to Present

- ▶ Stabilized bank relations; more favorable \$100MM 3-year credit facility put in place January 2012
- ▶ Generated \$87MM free cash flow (2008 thru 2011)
- ▶ Increased (pro-forma) gross margin by 7% despite a significant reduction in capacity utilization, which was down 43%
- ▶ Introduced game-changing technology (Transcend)
- ▶ Increased market share to 35% (up 5% in 2010)
- ▶ Expanded best-in-class product platform
- ▶ Attained world-class manufacturing status
- ▶ Built the strongest management team in the industry
- ▶ Building a global sales presence



# Current Initiatives & Strategic Objectives

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# Current Initiatives & Strategic Objectives



## Current Initiatives

- ▶ New product development
- ▶ Continued increase in market share
- ▶ Further cost reductions through world-class manufacturing methods and new technologies
- ▶ International expansion
- ▶ Expand reach through efficient branding programs

## Strategic Objectives

- ▶ Continued organic growth
- ▶ Acquisitions/business combinations that capitalize on brand, distribution and/or technology
- ▶ Strategic alliances (e.g., licensing agreements)



# Expand Branding Reach

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- ▶ We have multiple avenues of reach including:

## Consumer Advertising

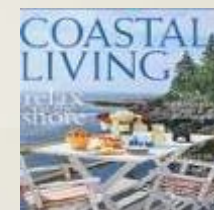
- ▶ Strong 2012 campaign, including TV advertising
  - ▶ 2012 HGTV Green Home sponsor
  - ▶ 2012 DIY Blog Cabin sponsor
  - ▶ 2012 Green Builder VISION HOUSE sponsor
- ▶ 165MM TV impressions
- ▶ 58MM online impressions
- ▶ 54MM print advertising impressions

## Trade Advertising

- ▶ 6MM impressions targeted to contractors, builders, dealers and architects
- ▶ Current campaign highlights Trex product innovation in each category

## Public Relations

- ▶ 314MM earned media impressions in 2011



# Leading Brand Awareness

- ▶ Trex's brand equity is our most vital asset
  - ▶ Lead in Total Consumer Brand Awareness by more than twice the next competitor
    - ▶ Unaided Consumer Brand Awareness is 5X the next competitor
  - ▶ Took top honor for decking products in Green Building Media 2012 Readers' Choice Brand Study
  - ▶ Swept composite decking category in *Remodeling* magazine's 2010 Brand Use Study, receiving four 1<sup>st</sup> place rankings
  - ▶ Winner of Design Journal's Platinum award for design excellence – Deck Lighting and Transcend
- ▶ \$56MM invested over last 3 years to drive brand awareness
- ▶ Branding efforts focused primarily on end consumers and trade to generate pull-through sales demand
- ▶ Compelling, integrated advertising, public relations & trade programs

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# Unsurpassed Domestic Channel Position

- ▶ Stocked in 5,000+ retail locations
- ▶ Two-Step/Pro Lumber Yards
  - ▶ 90 distributor locations in North America
    - ▶ Servicing 3,000 dealer locations
    - ▶ Added or expanded presence in ~500 dealers in 2010/2011
- ▶ Big Box/DIY
  - ▶ The Home Depot
    - ▶ Stocked in 1,300+ stores
  - ▶ Lowe's
    - ▶ Stocked in 1,500+ stores
  - ▶ National special order program offered through both companies
- ▶ Leading presence with home builders and national accounts



# Continued International Expansion



- ▶ The Trex brand has “Global Reach”
- ▶ Began international distributor development in 2010
  - ▶ Went from 2 countries in 2010 to 22 countries in 2011
- ▶ Strong presence in Europe, South America and Asia
- ▶ Global sales force focusing on further international expansion opportunities

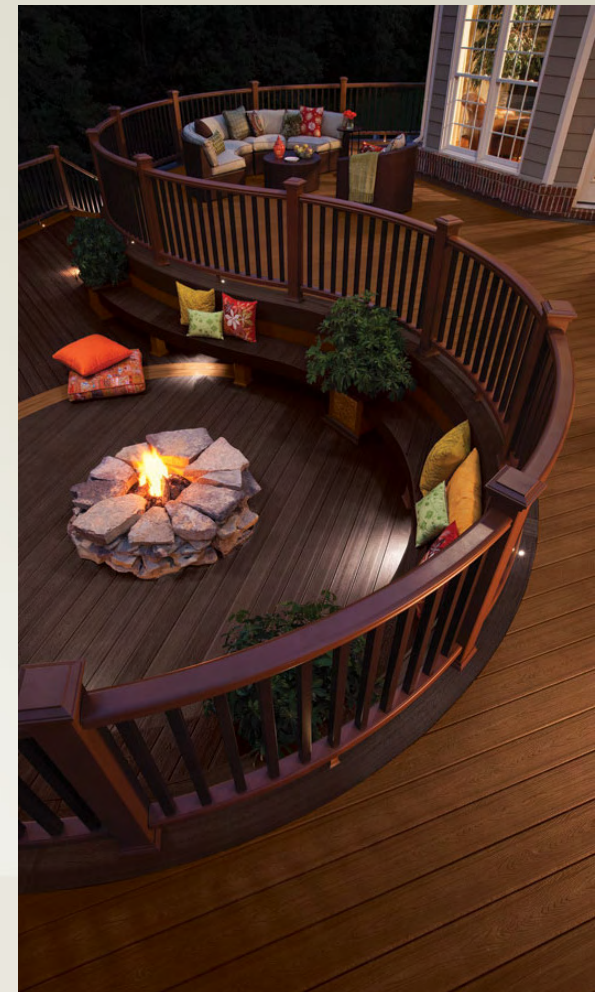




# World-Class Manufacturing Methods



- ▶ Collective “team accountability,” shop floor to top floor
- ▶ Pay-for-performance incentives – with monthly payout hurdles
- ▶ Real-time plant performance tracking / analysis
- ▶ Speed and quality of execution
  - ▶ Driving continuous productivity improvement through Lean & Six Sigma for “engineered” solutions
    - ▶ Improved manufacturing yields and line rates increased productivity 17% since 2007
- ▶ Computer modeling / process mapping for best financial results
- ▶ Supply Chain Best Practices
  - ▶ Lean Sigma / MRP inventory mgt. / SCOR benchmarking
  - ▶ True statistical forecasting for scheduling production



# Utilizing Advanced Technologies

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## ► Planalytics® Business Weather Intelligence

- Weather plays a key role in the timing of the purchase decision
- Predictive weather forecasts assists with key sales, promotional and production decisions
- Planalytics® weather data has ~ 80% accuracy looking out 11 months, updated weekly

## Planalytics®

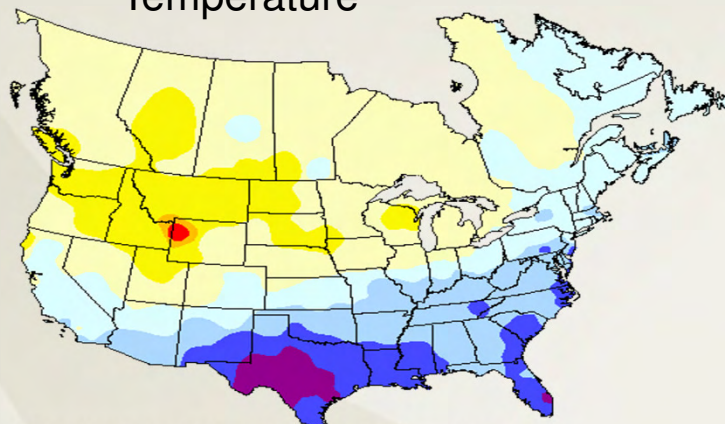
### **April 2012 Forecast vs April 2011**

Temp: Warmer in the North, colder in the South

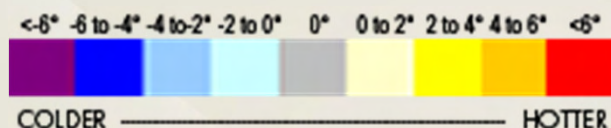
Precipitation: Drier in the North, wetter in the South

## April Outlook 2012 vs. 2011

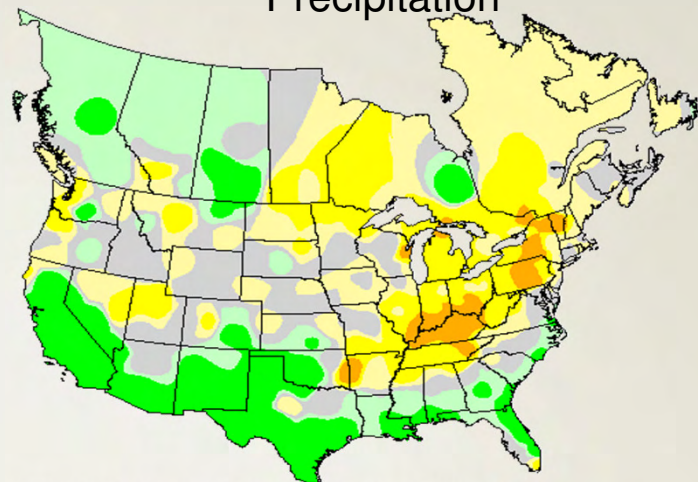
Temperature



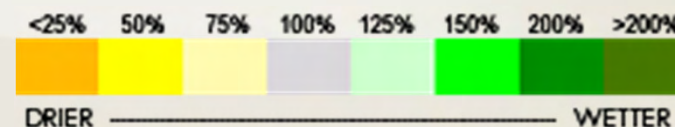
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Precipitation



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# Financial Performance

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# Financial Trends <sup>(1)</sup>



		New Management Team				
(\$ in MMs)	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010<sup>(2)</sup></u>	<u>2011</u>	
Net Sales	\$366.8	\$329.2	\$272.3	\$317.7	\$266.8	
Gross Margin	20.6%	27.7%	29.6%	28.9%	27.3%	
Operating Income	(\$0.8)	\$26.6	\$15.3	\$26.4	\$12.1	
EBITDA	\$21.8	\$51.5	\$38.2	\$46.0	\$30.6	
EBITDA % of Sales	5.9%	15.6%	14.0%	14.5%	11.5%	
Net Debt <sub>(ex APB 14-1)</sub>	\$133.9	\$110.6	\$81.5	\$73.1	\$50.4	
Net Debt <sub>(GAAP)</sub>	\$98.0	\$80.4	\$58.1	\$57.8	\$44.9	

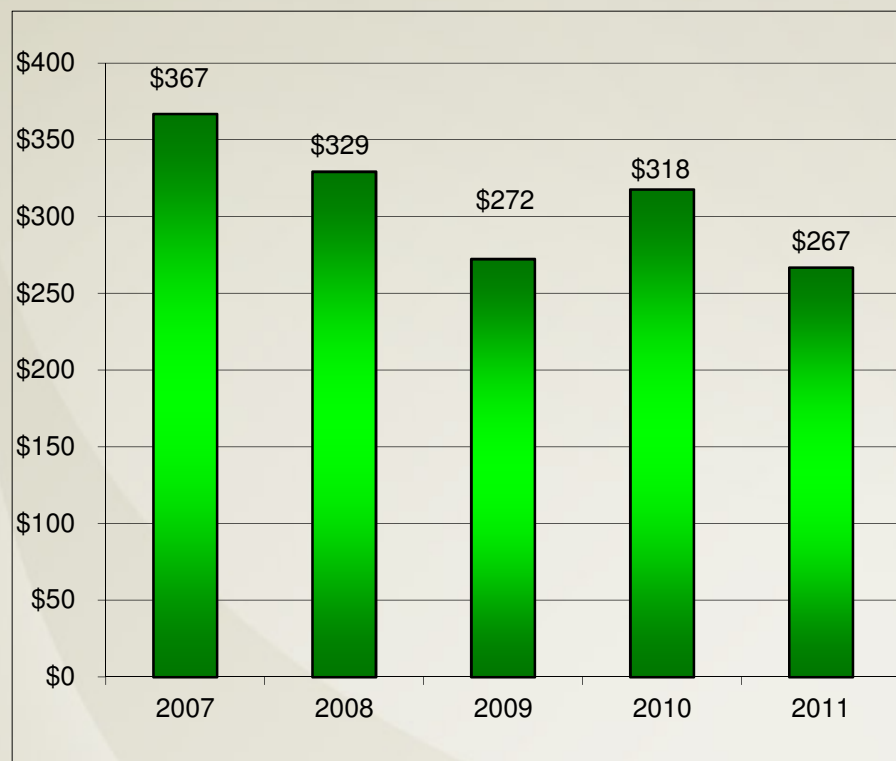
(1) Financial Trends exclude certain unusual charges as referenced in the Company's SEC filings

(2) 2010 includes \$17.5MM of Transcend startup costs



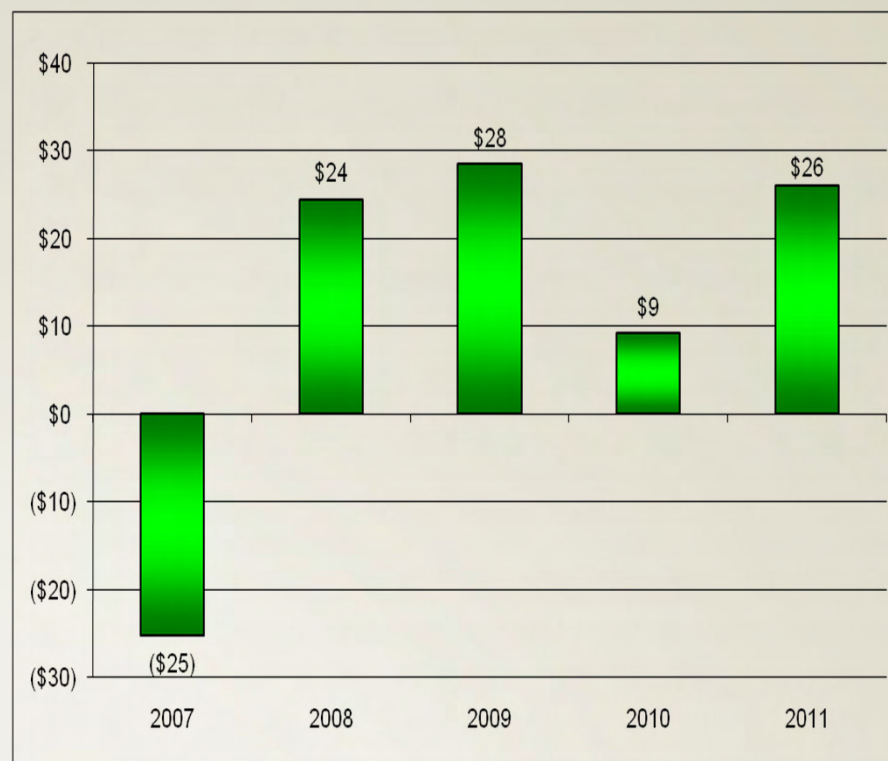
# Revenues and Free Cash Flow

**Revenues \$MM<sup>(1)</sup>**



Solid revenue performance through  
“The Great Recession”

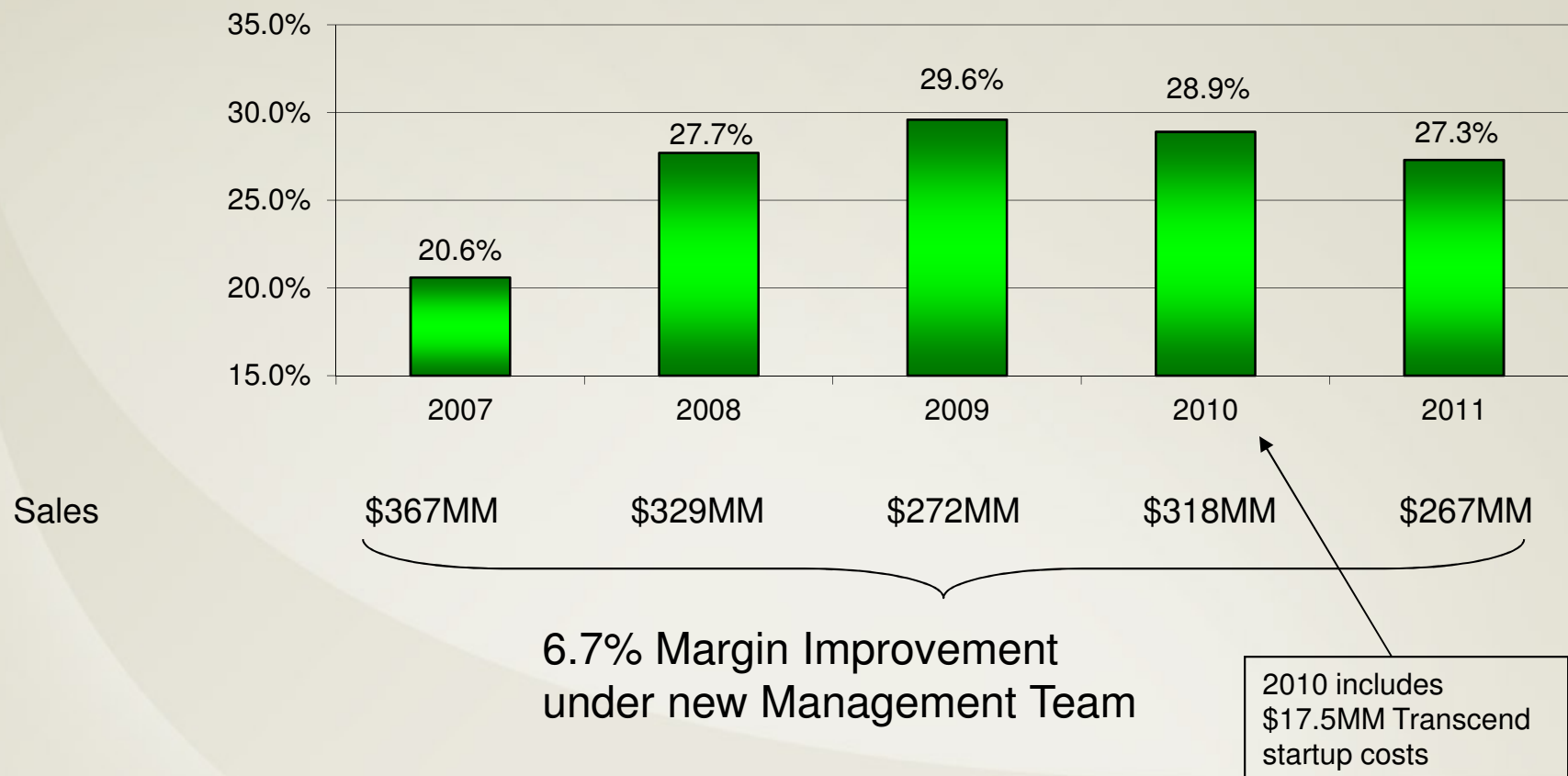
**Free Cash Flow \$MM**



Generated \$87MM of free cash flow  
2008-2011

# Significant Gross Margin Improvement

## Underlying Gross Margin





# FY 2011 Underlying Financial Results



	Pro-Forma 2011	Pro-Forma 2010	Variance %
Net Sales	\$266,789	\$317,690	-16.0%
Cost of sales	\$194,022	\$225,951	14.1%
Gross Profit	\$72,767	\$91,739	-20.7%
% of Net sales	27.3%	28.9%	-1.6%
SG&A Expenses	\$60,620	\$65,360	7.3%
% of Net sales	22.7%	20.6%	-2.1%
Operating Income	\$12,147	\$26,379	-54.0%
% of Net sales	4.6%	8.3%	-3.8%
Net interest	16,040	15,288	-4.9%
Earnings Before Taxes	(\$3,893)	\$11,091	-135.1%
Income taxes	\$11	(171)	-106.4%
Net income	(\$3,905)	\$11,262	-134.7%
% of Net sales	-1.5%	3.5%	-5.0%
EPS	(\$0.25)	\$0.72	-135.3%
EBITDA	\$30,565	\$45,994	-33.5%

2011 revenue and overall financial results negatively impacted by severe winter & spring weather and weak macro-economic conditions.

Gross margin improved due to focus on continuous improvement in manufacturing efficiencies offsetting negative impact of capacity utilization

## Description of Non-Recurring Items:

(1) 2011 cost of sales impacted by \$10.0MM increase to warranty reserve. 2011 Income taxes favorably impacted by \$2.6 million due to the favorable resolution of an uncertain tax position. 2011 Net Interest impacted by \$0.3MM due to convertible bond repurchase.

(2) 2010 Cost of sales impacted by \$15.0MM increase to warranty reserve and \$3.9MM of charges related to supply contracts. 2010 SG&A impacted by \$2.4MM impairment charge related to our poly processing joint venture in Spain..

# Balance Sheet



<u>\$ Millions</u>	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2011</u>
Cash	\$ 19.5	\$ 27.3	\$ 41.5
Accounts Receivable	31.4	53.3	29.2
Inventories	30.1	29.0	28.9
Net PP&E	137.0	126.9	115.2
Other	26.5	11.3	13.3
<b>Total Assets</b>	<b>\$ 244.5</b>	<b>\$ 247.8</b>	<b>\$ 228.1</b>
Warranty Reserve	\$ 11.5	\$ 14.5	\$ 16.3
Total Debt	77.6	85.1	86.4
Other Liabilities	45.2	45.3	32.9
Stockholders' Equity	110.2	102.9	92.5
<b>Total Liabilities and Equity</b>	<b>\$ 244.5</b>	<b>\$ 247.8</b>	<b>\$ 228.1</b>
Net Debt to Total Capitalization	34.5%	36.0%	32.7%



# Investment Highlights

- ▶ Continuous stream of innovative new product introductions
- ▶ Expanding distribution channels, domestic and international
- ▶ Achieving significant market share gains
- ▶ Compelling marketing campaign driving brand awareness
- ▶ Continued focus on eco-friendly product offering
- ▶ Low-cost manufacturer, advancing cost-competitive advantage
- ▶ Operating leverage opportunities
  - ▶ FY 2011 27% gross margin at only 30% capacity utilization

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**NYSE: TREX**

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