



An Interview with Ronald W. Kaplan,
President and Chief Executive Officer,
Trex Company, Inc.

EDITORS' NOTE Ronald Kaplan has served in his current role since January 2008. He was named Chairman of the Board of Directors in May 2010. Kaplan served as Chief Executive Officer of Continental Global Group, Inc. during 2006 and 2007. From 1979 through 2005, he was employed by Harsco Corporation, at which he served in a number of capacities, including as Senior Vice President-Operations and, from 1994 through June 2005, as President of Harsco's Gas Technologies Group. Kaplan received a B.A. in economics from Alfred University and an M.B.A. from the Wharton School of Business, University of Pennsylvania.

COMPANY BRIEF With nearly 20 years of product experience, Trex Company (www.trex.com) is the world's largest manufacturer of wood-alternative decking and railing. Trex® outdoor living products are built on "green" principles and values, and offer design flexibility with fewer ongoing maintenance requirements than wood. Trex has factories in Virginia and Nevada.

With the economic downturn over the past 24 months, how was the industry impacted and where is the business today?

About half a dozen competitors dropped out of the industry completely. Trex has approximately one third of the market and, after that, the next biggest competitor has about 14 percent and it falls away fairly quickly after that.

I was brought into Trex to drive a turnaround. The business has started to pick up in terms of sales for two reasons: first, there is an organic growth beginning to occur. We can tell that by the number of signed contracts for decks that contractors have in front of them; second, although our distributors and dealers are still very tight with the inventory reins, reorder activity is starting to pick up and there is a higher level of overall demand. In fact, we announced record fourth-quarter sales results in February. This illustrates the enthusiasm of dealers and distributors for our products, sales programs, and pricing strategy.

Fortunately, Trex does not rely heavily on the new home construction market. Ninety-plus percent of our sales are repairing and remodeling existing decks or existing homes. There are 40 million wooden decks in the U.S. They're all going to rot. That's our market.

Within that market, do you offer a broad range of products and price points?

We offer a variety of low-maintenance wood-alternative products for three distinct consumer segments. Each product we offer is a step up in performance with a corresponding price point. The first is Trex Accents®, the nation's number-one selling composite decking line, which features a subtle wood-grain texture that has the same elegant beauty as wood. Next, is our PVC product offering – called Trex Escapes® – that features a Class A fire rating, has lighter earth tone colors, and is scratch and stain resistant.

Our latest innovation is the Trex Transcend® system, which is the cornerstone of our product portfolio and widely recognized as the number-one brand of high-performance decking and railing due to its superior combination of performance and aesthetics. Transcend has a rich natural-looking grain pattern that is backed by a 25-year fade and stain warranty, it's 95 percent recycled, and cleans easily with soap and water. It's been a game-changer within the industry and enabled us to capture market share.

One considerable factor contributing to Trex's growth is the strategic pursuit of licensing agreements that both complement our core business and allow us the opportunity to enter new distribution channels and retail locations. With CurveIt, LLC, we offer Trex CustomCurve™, a solution to heating and bending Trex products on the job site. We market an above joist deck drainage system called Trex RainEscape® with Dri-Deck Enterprises, LLC, and our partnership with Poly-Wood Inc. has produced Trex Outdoor Furniture™, which features the same low maintenance and durability as our main product line. We've also continued bringing new products to market that expand our brand presence throughout the outdoor living arena, including an energy-efficient LED outdoor lighting collection and new Transcend styles inspired by tropical hardwoods.

When you came in, was it challenging to get people onboard?

The employees were hungry for change. They knew the company wasn't going to survive on the track it was on.

We had to go through some pretty serious dislocation of employees and rightsizing the company, but that was at the senior levels more so than at the middle or lower levels.

We had a wonderfully talented core of middle management folks and it didn't require us to teach them the right way, but only to let them do what they were good at and unencumber them from the layers of management that were smothering them.

With the management folks I brought in with me, we had to show them we could make a contribution; otherwise, you're going to be perceived simply as a taskmaster and that's when resistance begins to appear.

We asked, "What are we going to do to be of service to the people who are already here?" We then started to do that, particularly in manufacturing. As soon as the existing employees and incumbents began to see that you can hit pay dirt by implementing some of the new ideas, they became more receptive and now do it almost exponentially.

Is technology changing the way you're producing or designing product?

Absolutely. Until recently, wood-plastic composites were primarily mono-extruded products. We've developed co-extruded product with a shell – a geometric cohesion – adhered to the underlying core. We learned from our statistical sampling that the highest thing on the product hierarchy for consumers was extremely low maintenance. People want to enjoy their decks without having to maintain them on weekends. So, creating a co-extruded shell guaranteed to not fade or stain is a major technological breakthrough for us.

Do you foresee additional international opportunities?

Yes. We've now established a sales presence in Europe and Mexico. One year ago, we exported to two foreign countries; now, we export to 11. The power of the Trex brand is global. So our challenge is not brand awareness. It's about setting up distribution. And we're on our way.

In leading a public company, how have you dealt with the quarter-to-quarter pressure of dealing with the analysts?

We've relieved a lot of that quarter-to-quarter pressure, because we decided to withhold earnings guidance. We only give out one quarter of sales guidance and this frustrates some analysts. When I came onboard, the stock was about \$8. Now it trades around \$30. We did that in three years in a flat market. It's a testament to the fact that the analysts will be patient if you stay the course, are consistent in behavior and message, and bring home the bacon. ●