



James E. Cline

Trex's Turnaround

**An Interview with James E. Cline,
President and Chief Executive Officer, Trex Company, Inc.**

EDITORS' NOTE James Cline served as the Chief Financial Officer of Trex from March 2008 to August 2015 and as its Senior Vice President from August 2013 to August 2015. Prior to Trex, Cline served as President of Harsco GasServ, a subsidiary of Harsco Corporation. He served in various capacities with Huffey Corporation from June 1976 to February 1994, including as the Director of Finance of its True Temper Hardware subsidiary, a manufacturer of lawn care and construction products with nine manufacturing locations in the United States, Canada and Ireland. He has been a Director of Trex since August 2015. Cline received his undergraduate degree in accounting from Bowling Green State University and training from Harsco Management Institute, Cooper Management Institute, Zenger Miller and University of Wisconsin.

COMPANY BRIEF Trex Company, Inc. (trex.com) is the world's largest manufacturer of wood-alternative decking and railing, with more than 20 years of product experience. Stocked in more than 6,700 retail locations throughout the world, Trex® outdoor living products offer a wide range of style options with fewer ongoing maintenance requirements than wood, as well as a truly environmentally responsible choice.

Will you discuss the history and heritage of Trex and how the company has evolved?

The origin of Trex is interesting. Bob Wittenberg had a number of businesses that he had developed using recycled material; for example, breadcrumbs made from day old bread. He found himself flooded with plastic bags from the day-old bread and said, "What can I do with this?" He decided to mix some sawdust with plastic bags, pushed it through an extruder, and out came a board. He tried to light it and couldn't get it to burn, so he threw it behind his warehouse.

After a few months, he saw that the board that was sitting there still looked pretty good. He decided it could become industrial flooring

and that was the start of Trex. He developed a process of combining those plastic bags, sawdust and a few bonding agents to be able to make a board that was basically impervious to insects and moisture, and that was very durable. This got the attention of ExxonMobil because he started buying scrap from them. They owned a bag manufacturing business, and they ended up buying the company from him.

A few years later, ExxonMobil changed their strategy and four of the officers bought the business, took it private and then took it through an IPO in the early '90s. Trex was a small company growing nicely until the IPO, but then it moved into fast-track growth where it remained through the mid-2000s as they developed the Trex brand and expanded their advertising reach. Around the mid-2000s, Trex seemed to lose its way and the company struggled. Their sales were good, but they weren't keeping up with what the market was looking for and they weren't working together as a team.

In 2008, the board of directors decided to recruit a professional management team. In the past, the founders had been running it and as they retired the board felt they needed to bring in new blood. My predecessor, Ron Kaplan, came in as CEO. I had worked with him before and happened to call him just to congratulate him on the new job. I told him that I had just retired and he asked if I would like to do another turnaround with him.

It took about four years to affect the first stage of the turnaround and get the company in a sound financial position and we started growing from there. Over the past five years, our top line has seen 15 percent average compound growth and our EBIDA has experienced 24 percent average compound growth through the end of 2018, and we have been having record years, year after year.

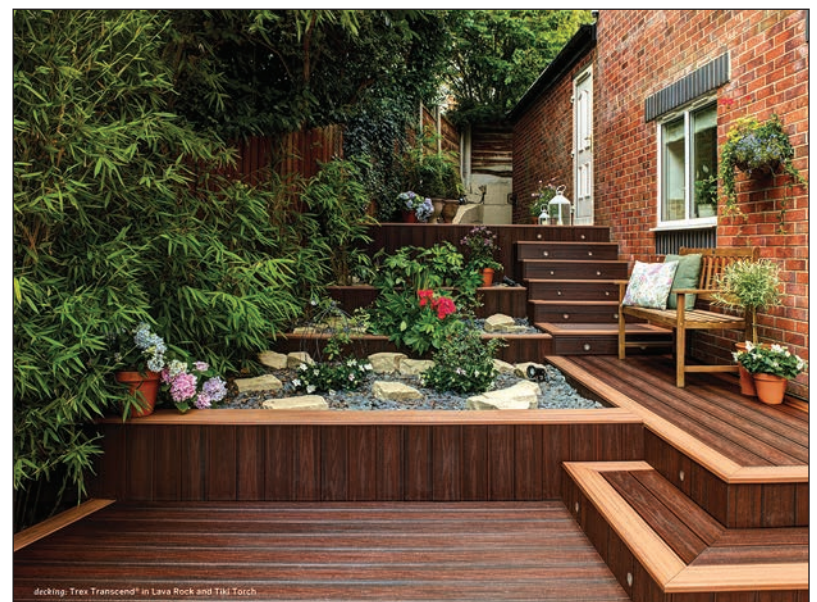
When you joined Trex, did the employees understand and accept that change was needed or did you need to bring in new talent to change the culture?

It was a culture change. There were 11 vice presidents for a \$300 million company, which was a few more than they needed. Worse than that, their incentive system was based on EPS and personal goals. They were pulling against each other, not pulling together. Before I started, Ron got rid of more than half the vice presidents, many of the other senior people and even some of those from the ranks.

Every department, with the exception of two, finance and R&D, was affected. I had asked him not to change the finance department because we had a lot of heavy lifting that needed to be done. At that time, if Trex was able to find the most complex way to do something, that is how it was done. We moved to the K.I.S.S. system (Keep It Simple Stupid). Six months in, we figured out that the products we were making were not what the consumers wanted, so we tasked our R&D group to develop products around certain parameters that equated to what the customer wanted. They didn't want a board that would fade. They didn't want a board that would stain. They wanted a board that could be cleaned off easily if it got mold on it. Those were the three drivers they wanted. They weren't getting that from any manufacturer. About a year and a half later, we started selling that board. It is called Transcend.

How broad is the market for the product?

When we first started, the emphasis for the company was distributor relationships and professional lumber yards and, to a lesser but still



important degree, the contractors that did the installation. They weren't focused that much on the consumer. They did TV advertising to reach the consumer, but they really weren't focused on capturing the heart and soul of that consumer and driving them towards the product.

With the explosion of cell phones as an information source, we basically changed the business model. The marketing people that we had were at the forefront of this and decided to go after the consumer. We needed to capture them as they were watching our TV ads, drive them to our website and then help them through the process and so we began doing that.

The final piece that we put in place was to bring our customer service for the consumer in-house. The consumer doesn't buy much directly from us, but we needed to focus on that consumer because, at the end of the day, if you grab the heart and soul of the consumer, everybody else will come along for the ride.

Have you expanded Trex's product offerings?

When we first came onboard, Trex basically had one product in a bunch of colors. We now have a good-better-best approach that we have expanded recently. Our top-end product sells for about \$4 to \$4.25 at retail; our next tier down sells for about \$2.50, and we have a new consumer product that is focused on wood conversions selling for about \$2.50 with an opening price point of about \$1.75.

The reason the \$1.75 price point is important is that this is about twice the cost of pressure-treated lumber. We're focused on converting customers from pressure-treated lumber to composites and the first step is getting them to think about it. If we only sold at \$4 a linear foot, they would see it as too expensive. At \$1.75, you can tweak their interest to reach a portion of the consumer base that would be willing to make that movement away from wood.

Wood accounts for 83 percent of linear feet sold and composites are only 17 percent. That is important because each additional percentage point we gain accounts for \$50 million in sales. Over the last three years, we have been moving the needle and this is one of the reasons why we have such a great growth trajectory.

Are you still educating the consumer about the difference between wood and composites?

Absolutely; we do a lot of consumer research and we identify which consumers are in the group that we could influence and the ones that will always stick with wood. We bought a website about a year ago called decks.com. Their organic search got the same kind of hits as Trex's organic and paid searches, but the people on decks.com were almost exclusively wood buyers. The site's content included designs and information on how to construct a deck. We left that intact but we added something – we added a way for them to see what the cost of the deck would be with wood and what it would be with composites and, if they wanted to find out more, we provided a quick link to the Trex website. This would put them in the funnel with our customer group and, if they were interested, would drive them through that funnel and help them make their decision.

Is Trex's target market those who are redoing decks or those building new decks?



Ninety-five percent of our sales are for repair and remodeling. Anybody who has owned a wooden deck and had to go through all the maintenance associated with it and then see it deteriorate is a prime prospect for Trex.

Several years ago, they took the arsenic preservative out of pressure-treated lumber and the substitute is not as potent so it degrades faster. Instead of the 20-year life of arsenic-based preservative pressure-treated lumber, people are now having to replace it within 7 to 12 years. After they do it once, they really don't want to do it again.

As a public company, is it difficult to find a balance between the short-term financial pressures and long-term investments?

Investors who follow our stock are smiling because they understand the story. Management does not solely concentrate on quarter-to-quarter results. We also do not do the aberrant things that others do to push sales into one quarter versus another to generate a little bit of extra profit in that quarter only to find that it is going to cost twice as much in the next. We've avoided that.

We have been fortunate though because of the multiple we carry and the fact that we are a huge cash generator, which means that we can afford to take some chances. Of course, the stock price has gone down occasionally, but it never goes down enough that anybody has raised their hand and said, "We would like to buy you." The multiple is just too great for people to get their head wrapped around it. They don't see the growth opportunity in the way that management and certain of our investors see it.

What do you tell those entering the workforce about the opportunities that Trex offers?

In today's environment, it is a challenge to bring in good qualified people. I think Trex checks a couple of boxes. First, we are a recycler. This is our competitive advantage. Our deck boards are 95 percent recycled material. We're the largest recycler of waste film in North America by far.

We run campaigns with school kids to get them interested in recycling. They send plastic to us and we pick those who do the most and send them a bench made out of Trex material. This is a wonderful outreach program for us.

Also, people like to be with winners. We have a great track record. If you looked at the past six to eight years, you would see Trex has been growing at pretty close to a 15 percent average compound rate with a great expansion of profitability. It is more fun to be with a winner than a loser and a company that is growing rather than contracting, and I have personal experience in both.

When you started on this journey in 2008 after a very short retirement, did you imagine still being at Trex this many years later?

I didn't think I would be around this long. Typically, turnarounds have a lot of ugly parts. I've closed down more than 25 different facilities over the years and it is gut wrenching. I don't like it. It's not fun. Doing a turnaround where you aren't closing factories is a lot more fun and that is what we have been able to do at Trex.

When I first came onboard, after we got rid of that top level of management, I was able to talk to a wide variety of our people and found that they were turned on and focused. They knew what the problems were – they just needed some help in driving the change that needed to take place within the organization. It was a great talent pool that just needed a different direction.

Do you ever think about another retirement?

I've told my board of directors that I'm going to retire before age 70 and I will be 68 this year. I had to think long and hard about this. I like the people I work with and I like the company. If it ever stops being fun, I'll be out of here in pretty short order. But regardless of that, I believe at some point it is time to let a new team come in and have the same opportunity that I have had to grow the company, so I'm going to let that happen. ●