

Trex Company, Inc. (TREX – \$59.77)
March 20, 2025*

Trex Company, Inc. (TREX) manufactures and sells residential wood-alternative decking, railing, fencing, and outdoor living products. The Company's products include decking, railing, fencing, and outdoor lighting, among others. The Company sells its products through wholesale distributors, retail dealers, and retail stores, among others. The Company was founded in 1998 and is headquartered in Winchester, VA. Its fiscal year ends on 12/31.

Thesis Summary

We are concerned entry-level product demand weakness may persist and FY 25 guidance may be optimistic and difficult to achieve in an uncertain/challenging macro environment. We are concerned channel inventory management may persist as distributors/dealers may prefer to carry lower-than-typical inventory levels and near-term revenue may be pressured. Muted Q1 25 restocking guidance despite a potential increased shelf space sell-in benefit, elevated large distributor inventory levels, and large distributor commentary highlighting customers (i.e. dealers) focus on working capital management heighten our concerns. We are concerned inventory may be materially overbuilt and FY 25 margin expectations may be optimistic to the extent the Company is compelled to reduce production levels. In our view, commentary about a new channel inventory "strategy" and production volatility reductions may be misleading given limited prior commentary about the strategy and Q4 24 margin pressure attributed to lower utilization rates. Elevated finished goods levels and material purchase commitments heighten our inventory concerns. We believe a prepaid expense level surge suggests margins may be pressured as expenses are recognized through the income statement. We are concerned elevated additions to property, plant, and equipment and construction in progress levels and the planned opening of a new manufacturing facility suggest depreciation may ramp and/or the Company overbuilt capacity. Depressed free cash flow levels despite a non-cash capital expenditure surge heighten our earnings sustainability concerns.

Company Data

Country/Exchange	US/NYSE
Shares Outstanding (mil)	107.2
Float (mil)	106.4
Short Interest (mil)	6.1
% of Float Short	5.7%
Average Volume (mil)	\$88.4
52 Week Range	\$52.75 – \$100.77
Dividend Yield	0.0%
Market Cap (bil)	\$6.4
Net Debt (bil)	\$0.2
Enterprise Value (bil)	\$6.6
FY 24 Rev (mil)/Rev Growth	\$1,151.4 / 5.2%
FY 24 Adj. EBITDA (mil)	\$360.3
FY 24 GM %/Change	42.2% / 90 bps
FY 24 Adj. EBITDA Margin %/Chg	31.3% / 150 bps

Valuation (as of report date)

NTM P/S	5.3x
NTM EV/ EBITDA	17.7x
NTM P/E	27.4x

Consensus Estimate Drift

	EST	1M Ago	6M Ago	1YR Ago
Q1 25 Rev	\$329.1	\$322.1	\$350.9	\$393.8
FY 25 Rev	\$1,222.5	\$1,213.8	\$1,215.8	\$1,366.1
FY 26 Rev	\$1,330.6	\$1,330.6	\$1,339.2	\$1,473.3
Q1 25 EPS	\$0.59	\$0.63	\$0.71	\$0.81
FY 25 EPS	\$2.20	\$2.19	\$2.19	\$2.54
FY 26 EPS	\$2.51	\$2.51	\$2.52	\$2.83

Peers Mentioned In This Report

Boise Cascade Company (BCC)
The Home Depot, Inc. (HD)
Lowe's Companies, Inc. (LOW)

Catalysts and Timing

Entry-level demand weakness and/or economic uncertainty persists and pressures revenue.
Channel inventory management pressures sell-in.
Production volume reductions and overcapacity pressure margins.
Increased depreciation expense pressures earnings.

* All research is completed as of 4:00PM – 4:15PM Eastern Time unless otherwise noted.
 Please refer to the end of this report for an updated version of *The Short List*.
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Company Background

Company description: Trex Company, Inc. (TREX) manufactures and sells residential wood-alternative decking, railing, fencing, and outdoor living products. The Company’s products include decking, railing, fencing, and outdoor lighting, among others. The Company sells its products through wholesale distributors, retail dealers, and retail stores, among others. The Company was founded in 1998 and is headquartered in Winchester, VA. Its fiscal year ends on 12/31.

Background on Trex decking products: In its FY 24 10K, Trex highlighted its decking products primarily included Trex Signature, Trex Transcend, Trex Select, and Trex Enhance. On its website, Trex highlighted Trex Signature was its “luxury” product line, Trex Transcend was its “best” product line, Trex Select was its “better” product line, and Trex Enhance was its “good” product line. In its Investor Presentation on 01/17/23, Trex highlighted Trex Transcend costs approximately \$6.00 per linear foot, while Trex Select costs approximately \$4.00, Trex Enhance Naturals costs approximately \$2.60, and Trex Enhance Basics costs approximately \$2.00 compared to traditional wood decking, which costs approximately \$1.00 per linear foot. On its Q1 24 Conference Call on 05/09/24, the Company highlighted its Trex Signature product line costs approximately \$9.50 per linear foot at midpoint.

Trex Decking Product Analysis	Tier	Price Per Linear Foot
Trex Signature	Luxury	~\$9.50
Trex Transcend	Best	~\$6.00
Trex Select	Better	~\$4.00
Trex Enhance Naturals	Good	~\$2.60
Trex Enhance Basics	Good	~\$2.00
Wood	--	~\$1.00

Background on raw materials and manufacturing: In its FY 24 10K, the Company disclosed its raw materials primarily included reclaimed wood fiber and scrap polyethylene. Trex disclosed its products were primarily manufactured at its facilities in Virginia and Nevada.

Background on major customers/distributors/dealers: In its FY 24 10K, Trex disclosed three customers accounted for 81.0% of FY 24 revenue. However, Trex did not name its three largest customers. In addition, Trex represented certain retailers, including The Home Depot, Inc. (HD) and Lowe’s Companies, Inc. (LOW), purchased Trex products directly and through distributors. Accordingly, we believe Home Depot and Lowe’s may account for a material portion of Trex retail channel end-customer sales. Further, based on our understanding of the professional channel, distributors purchase products from Trex and sell the products to local dealers (e.g. lumber yards), where they are available for purchase by contractors. Previously, in its FY 19 10K, Trex disclosed distributors Boise Cascade Company (BCC) and Lumber Group LLC (private) each accounted for over 10.0% of FY 19 revenue.

Customer Analysis (as % of revenue)	FY 24
Three customers	81.0%
Other	19.0%
Total	100.0%

Seasonality: Over the past three years, Q2 accounted for 33.4% of revenue on average, while Q4 accounted for 16.6%. In its FY 24 10K, the Company highlighted it offered certain incentive programs to distributors and dealers to build inventory ahead of peak season, which offset certain seasonal effects.

Our operating results for Trex Residential have historically varied from quarter to quarter. Seasonal, erratic or prolonged adverse weather conditions may reduce the level of home improvement and construction activity and can shift demand for our products to a later period. As part of its normal business practice and consistent with industry practice, Trex Residential Products has historically offered incentive programs to its distributors and dealers to build inventory levels before the start of the prime deck-building season in order to ensure adequate availability of its product to meet anticipated seasonal consumer demand. The seasonal effects are often offset by the positive effect of the incentive programs. (FY 24 10K)

Seasonality Analysis (as % of total)	Q1	Q2	Q3	Q4
FY 24 quarterly revenue contribution	32.4%	32.7%	20.3%	14.6%
FY 23 quarterly revenue contribution	21.8%	32.6%	27.8%	17.9%
FY 22 quarterly revenue contribution	30.7%	34.9%	17.0%	17.4%
Three-year average	28.3%	33.4%	21.7%	16.6%

Background on commercial business divestiture: In its FY 24 10K, Trex highlighted on 12/30/22, it divested its Trex Commercial Products business. Trex Commercial Products accounted for 4.2% of FY 22 revenue. Given the limited materiality of the Trex Commercial Products business, we believe the divestiture did not have a material impact on working capital levels.

Competition: In its FY 24 10K, Trex highlighted its primary competition included wood decking and railing products from conventional lumber suppliers. In the wood alternative market, Trex primarily competes with TimberTech (subsidiary of AZEK), Fiberon (subsidiary of FBIN), Deckorators (subsidiary of UFPI), and DuraLife (subsidiary of CRH), among others.

Voyant's Earnings Risk Assessment

We are concerned entry-level product demand weakness may persist and FY 25 guidance may be optimistic and difficult to achieve in an uncertain/challenging macro environment. We are concerned channel inventory management may persist as distributors/dealers may prefer to carry lower-than-typical inventory levels and near-term revenue may be pressured. Muted Q1 25 restocking guidance despite a potential increased shelf space sell-in benefit, elevated large distributor inventory levels, and large distributor commentary highlighting customers (i.e. dealers) focus on working capital management heighten our concerns. We are concerned inventory may be materially overbuilt and FY 25 margin expectations may be optimistic to the extent the Company is compelled to reduce production levels. In our view, commentary about a new channel inventory “strategy” and production volatility reductions may be misleading given limited prior commentary about the strategy and Q4 24 margin pressure attributed to lower utilization rates. Elevated finished goods levels and material purchase commitments heighten our inventory concerns. We believe a prepaid expense level surge suggests margins may be pressured as expenses are recognized through the income statement. We are concerned elevated additions to property, plant, and equipment and construction in progress levels and the planned opening of a new manufacturing facility suggest depreciation may ramp and/or the Company overbuilt capacity. Depressed free cash flow levels despite a non-cash capital expenditure surge heighten our earnings sustainability concerns.

FY 25 Guidance May Be Dependent On Entry Level Recovery Amid Macro Uncertainty

Mid-year FY 24 revenue guidance reduction attributed, in part, to entry-level weakness: Previously, in its Q4 23 Earnings Release, the Company guided for FY 24 revenue of \$1,225.0 million at midpoint. In its Q2 24 Earnings Release, the Company reduced its FY 24 revenue guidance 6.9% to \$1,140.0 million at midpoint. On its Q2 24 Conference Call, Trex attributed the FY 24 revenue guidance reduction to entry-level product weakness and certain channel inventory reductions driven by economic uncertainty.

Looking ahead to the second half of 2024, there are two main factors impacting our outlook for the back half of the year. First, we see accelerated weakness in the entry-level product category; and secondly, we anticipate the current economic uncertainty will result in a reduction of pro channel inventories. With respect to our revised sales guidance, a meaningful portion of our projected sales decline is related to incremental channel inventory built in the first half of the year. (CEO Mr. Bryan Fairbanks, Q2 24 Conference Call, 08/06/24)

FY 24 Guidance Analysis (\$ in millions)	Revenue
Guidance per Q4 23 Earnings Release	\$1,225.0
Guidance per Q1 24 Earnings Release	\$1,225.0
Guidance per Q2 24 Earnings Release	\$1,140.0
<i>Change from prior guidance</i>	<i>(6.9%)</i>

Entry-level weakness persisted throughout H2 24: On its Q3 24 Conference Call, Trex highlighted “general weakness” in the entry level market and represented certain lower-income consumer were questioning repair and remodel projects. On its Q4 24 Conference Call, Trex highlighted Q4 24 entry-level product demand was “sequentially stable.” Accordingly, we believe entry-level demand remained depressed throughout H2 24.

The differentiation is primarily going to be off of the demographic of the more entry level customers. So, you're going to have a lower income demographic. And in an environment where there's much higher inflation, that consumer is asking the question, which repair-and-remodel projects do I want to do with my home. So, that's definitely a key driver of it. I think it's really important to note also that composites are not losing share to wood. Wood is declining at a higher rate than what we've seen, our entry level decline. So, we still see that there is underlying support, that conversion is happening in the market. Again, we survey

our partners in the marketplace so that we understand what's happening out there. But there is a general weakness at that entry level at this point. (CEO Mr. Bryan Fairbanks, Q3 24 Conference Call, 10/28/24)

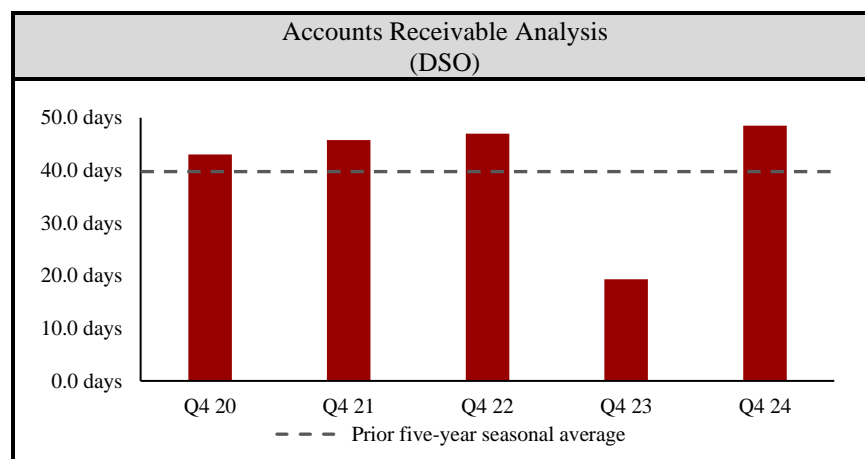
FY 25 guidance may be partially dependent on entry level improvement, in our view: In its Q4 24 Earnings Release, Trex guided for revenue to increase 6.0% year-over-year to \$1,220.0 million at midpoint. On its Q4 24 Conference Call, Trex highlighted its FY 25 guidance included (1) strong premium product sell-through, (2) improved entry-level product demand, and (3) double-digit railing product revenue growth. Accordingly, we believe FY 25 revenue guidance achievability may be partially dependent on entry-level product demand improvement. **To the extent entry-level weakness amid elevated economic uncertainty persists, we would be concerned about FY 25 revenue guidance achievability risk.**

Trex is positioned for continued growth in 2025 amid expectations for the repair and remodel market to be approximately flat compared to the 2024 levels. **Our guidance for market outperformance anticipates** continued strong sell-through of Trex premium decking products, **improved demand for Trex entry-level products**, and double-digit growth in our railing product sales. (CEO Mr. Bryan Fairbanks, Q4 24 Conference Call, 02/24/25) [emphasis added]

Revenue Analysis (\$ in millions, guidance at midpoint)	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25G
Revenue	\$880.8	\$1,197.0	\$1,106.0	\$1,094.8	\$1,151.4	\$1,220.0
<i>Year-over-year change</i>	<i>18.2%</i>	<i>35.9%</i>	<i>(7.6%)</i>	<i>(1.0%)</i>	<i>5.2%</i>	<i>6.0%</i>

Channel Partners May Be Reluctant To Restock Inventory In Uncertain Environment

Seasonally elevated receivable levels suggest channel inventory may be elevated, in our view: In Q4 24, accounts receivable surged 114.8% year-over-year to \$88.4 million, while revenue declined 14.4% to \$167.6 million. Accordingly, days sales outstanding (DSO) surged 150.8% to 48.5 days, the highest seasonal level in at least five years and 8.0% above the prior five year seasonal average excluding the historically depressed Q4 23 levels. The Company did not discuss the receivable level increase on its Q4 24 Conference Call or in its FY 24 10K. While we acknowledge DSO surged from a depressed base, we believe seasonally elevated receivable levels suggest (1) channel inventory levels may be elevated and/or (2) customers are taking longer to pay. In either scenario, we would be concerned about potential revenue pressure.



Q4 24 destocking materially above guidance highlights limited channel visibility, in our view: Previously, on its Q3 24 Conference Call, Trex guided for channel inventory to decline \$25.0 million at midpoint. On its Q4 24 Conference Call, Trex highlighted channel inventory declined \$45.0 million during Q4 24, 80.0% above its prior guidance. In addition, the Company represented channel inventory days were “near all-time lows.” While we acknowledge the Company represented channel inventory levels were historically low and destocking was higher

than guided, we believe the materially above guided Q4 24 destocking (1) highlights limited channel visibility and/or (2) suggests channel partners may have a preference to carry lower levels of inventory relative to historical norms (discussed next).

In the fourth quarter, net sales were \$168 million, a decrease of 14% compared to \$196 million. **In Q4, channel inventories decreased by approximately \$45 million, which is almost double what we had originally forecasted.** And despite the better-than-expected sales in decking, the decking channel inventory's days on hand are down from 2023 and near all-time lows. (CFO Ms. Brenda Lovcik, Q4 24 Conference Call, 02/24/25) [emphasis added]

Q4 24 Destocking Guidance Analysis (\$ in millions)	Destocking
Q4 24 guidance per Q3 24 Conference Call (at midpoint)	\$25.0
Q4 24 reported	\$45.0
<i>Above (below) guidance</i>	80.0%

Dealers may prefer to carry lower inventory levels and be reluctant to restock amid soft end-market demand:

In its February 2025 Decking and Porches Demand Meter Forecast, John Burns Research & Consulting highlighted decking product dealers reported stocking lower inventory levels in anticipation of softer near-term demand.¹ Accordingly, we are concerned dealers may prefer to further reduce inventory levels and/or may be reluctant to restock inventory levels in the near term and Trex revenue may remain pressured.

Sell-through sales of decking products will remain consistent with seasonal patterns, but **dealers report stocking lower inventories in anticipation of softer near-term demand.** (John Burns Research & Consulting February 2025 Decking and Porches Demand Meter Forecast) [emphasis added]

Guidance for muted Q1 25 channel restocking heightens our concerns: Throughout the course of our research, we identified Company commentary highlighting historical Q1 channel inventory restocking. On its Q4 24 Conference Call, Trex guided for Q1 25 to not include channel inventory building to the same extent as Q1 24 due to its new channel inventory strategy (discussed herein). Specifically, the Company guided for \$40.0 million of revenue to move out of Q1 25 into the remainder of the year. Given Q4 24 channel inventory levels were “near all-time lows,” we believe the muted Q1 25 channel restocking suggests (1) the Company commentary about historically low channel inventory levels may be misleading and/or (2) channel partners may prefer to carry lower than typical inventory levels.

Based on the inventory strategy highlighted earlier, 2025 first quarter sales will include our Early Buy program assumed at levels similar to last year but **will not include the channel inventory builds to the same degree as in 2024.** This strategy will change the quarterly timing of 2025 sales as compared to prior year, with approximately \$40 million shifting out of the first quarter into the remainder of the year. As a result, we are guiding the first quarter 2025 revenues to be between \$325 million to \$330 million. (CFO Ms. Brenda Lovcik, Q4 24 Conference Call, 02/24/25) [emphasis added]

Channel Inventory Analysis	Commentary
Q4 21 Conference Call	“normally the first quarter is going to be building up inventory... that's exactly what we are seeing.”
Q4 22 Conference Call	“though the channel is not stocking to the same degree... it will be building inventory in the first quarter.”
Q4 23 Conference Call	“getting the inventories to the right level in 2024... so the first quarter will have much higher growth.”

One-time Home Depot channel stocking may provide an unsustainable near-term benefit: On its Q4 24 Conference Call, Trex guided to benefit from gaining additional shelf space in Home Depot locations in Q1 25.

¹ <https://jbrec.com/research/building-products-package/building-products-demand-meter-decking-porches/>

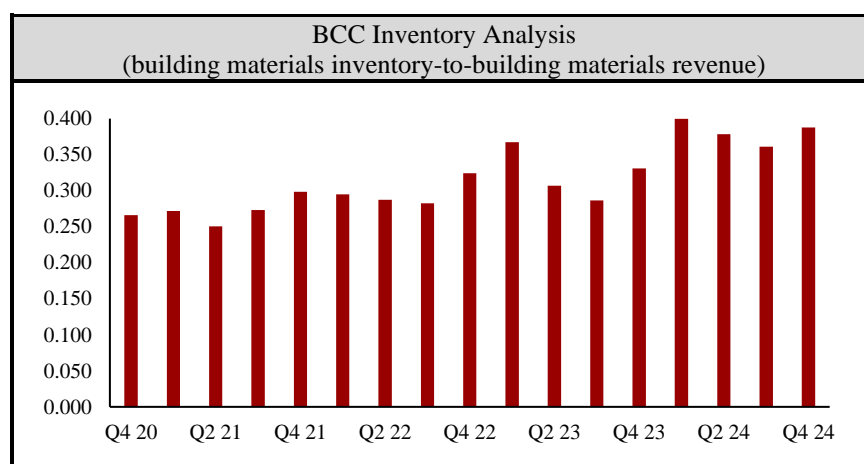
While we acknowledge additional shelf space may highlight competitive displacements, we believe Trex may receive a one-time channel stocking benefit as it sells in to the additional Home Depot shelf space. Accordingly, our concerns about weak Q1 25 channel restocking guidance are heightened. In addition, we believe the initial sell in benefit may create challenging comparable periods.

Our home center business will benefit from additional shelf space we're gaining in this quarter at The Home Depot. (CEO Mr. Bryan Fairbanks, Q4 24 Conference Call, 02/24/25)

Boise Cascade is likely a material distributor, in our view: Previously, in its FY 19 10K, Trex highlighted Boise Cascade Company (BCC), a building products distributor, accounted for more than 10.0% of FY 19 revenue. As mentioned, in FY 24, three customers accounted for 81.0% of Trex revenue (Trex did not disclose the name of the three customers). In its 11/13/24 Press Release, Trex highlighted it entered into an exclusivity agreement with Boise Cascade in which Trex was the only brand of composite decking and deck railings sold and distributed by Boise Cascade locations that participated in the program. Accordingly, we believe Boise Cascade is likely a significant Trex customer.

Elevated Boise Cascade building materials inventory and commentary heighten our channel concerns: In Q4 24, Boise Cascade building materials inventory increased 13.1% year-over-year to \$558.0 million, while building materials revenue declined 3.6% to \$1,438.8 million. Accordingly, Boise Cascade building materials inventory-to-building materials revenue increased 17.3% to 0.388, the highest seasonal level in at least five years. On its Q4 24 Conference Call on 02/21/25, Boise Cascade represented it felt “pretty good” about inventory levels and highlighted customers (i.e. dealers) were “pulling more and more material” from warehouses and were focused on working capital and inventory days on hand due to increased uncertainty. While we acknowledge Trex may account for a small portion of Boise Cascade inventory and inventory may have shifted from Boise Cascade customers to Boise Cascade due to customer working capital management, we believe elevated Boise Cascade inventory levels and commentary about customer working capital management due to market uncertainty highlight (1) elevated channel inventory and/or (2) channel restocking reluctance.

On our inventory position overall, you know what? I feel pretty good. Right now, with all the uncertainty or lack of clarity out there, people are pulling more and more material out of – from warehouse. And talking to our dealers, years I've been doing this, **I've never heard so much conversation from that level about net working capital and days on hand**. So, there is a real reliance, and so we're sitting there ready to serve every single day. (BCC COO Mr. Jeff Strom, BCC Q4 24 Conference Call, 02/21/25) [emphasis added]



New Strategy May Not Rationalize Material Inventory Build & Margins May Be Pressured

Background on inventory disclosure: In its quarterly (10Q) and annual (10K) reports, the Company discloses raw material and finished goods inventory on a first-in, first-out (FIFO) accounting basis and a related reserve to adjust total FIFO inventory to last-in, first-out (LIFO).

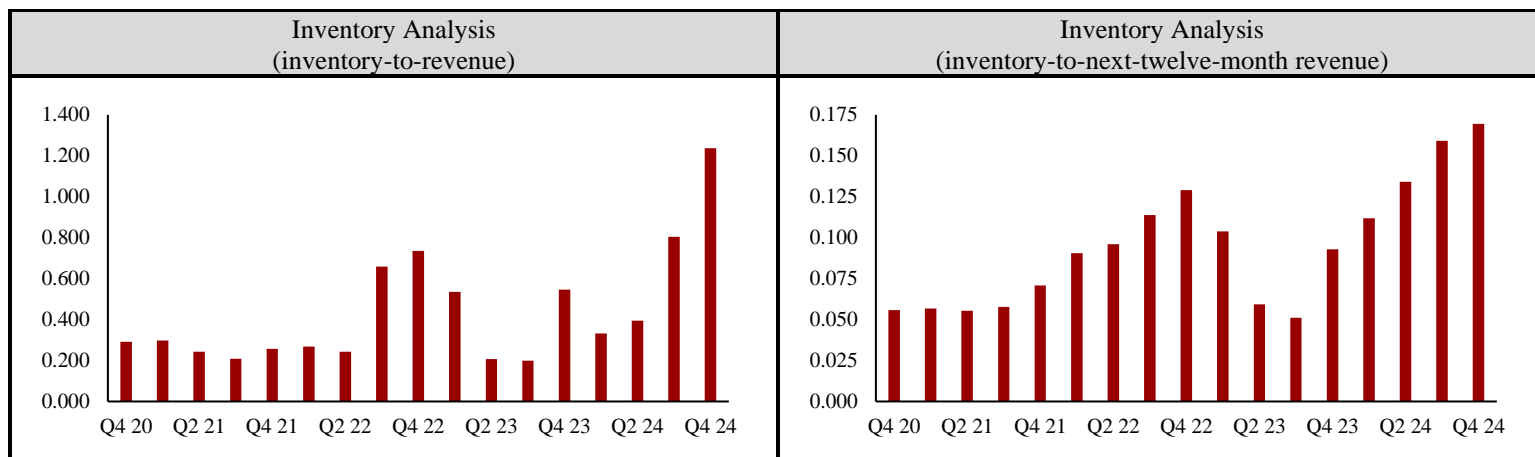
Inventory Accounting Analysis (\$ in millions)	Q4 24
Finished goods	\$183.7
Raw materials	\$73.3
Total FIFO inventory	\$257.0
Reserve to adjust inventory to LIFO	(\$49.7)
Total LIFO inventory	\$207.3

Background on recently implemented “revised” inventory strategy: On its Q4 24 Conference Call, the Company represented it “revised” its “strategy” in H2 24 to reduce certain quarterly volatility and production fluctuations. Based on our understanding of representations made to us by the Company, Trex’s revised strategy includes (1) level loaded (i.e. less seasonal) production and (2) leaner distributor inventory levels.

Elevated inventory levels attributed to “revised” channel inventory strategy and new product launches: In Q4 24, inventory surged 93.6% year-over-year to \$207.3 million, while revenue declined 14.4% to \$167.6 million. Accordingly, inventory-to-revenue surged 126.0% to 1.237, the highest level in at least five years. In addition, inventory-to-next-twelve-month revenue (consensus estimate) surged 82.2% to 0.169, the highest level in at least five years.² In its FY 24 10K, the Company attributed the inventory build to increased production, new products, and peak season preparedness. On its Q4 24 Conference Call, Trex represented it had the “right level” of inventory and highlighted new product introductions drove a “structural change” to its balance sheet. While we acknowledge the Company may have built certain new product inventory ahead of new product launches, we believe inventory levels were materially elevated relative to historical levels and revenue expectations. Further, we are concerned a mid-year FY 24 guidance revenue reduction (discussed heretofore) suggests the Company may have been compelled to shift its inventory “strategy” due to building inventory for H2 24 demand that did not materialize. Accordingly, we are concerned capacity utilization and margins may be pressured to the extent the Company is compelled to reduce production levels.

In the second half of 2024, we revised our channel inventory strategy to reduce the quarterly volatility associated with the timing of channel stocking and destocking and to minimize production fluctuations within our manufacturing plants. Production efficiencies generated by continuous improvement initiatives, coupled with increased inventory which we now believe to be at the right level, position us to service the market with normal lead times, avoid significant channel fluctuations experienced historically, and minimize quarterly revenue and gross margin volatility. (CFO Ms. Brenda Lovcik, Q4 24 Conference Call, 02/24/25)

² As of the date of this publication, the consensus expects next-twelve-month revenue to increase 6.2% to \$1,223.0 million.



“Revised” inventory strategy commentary may have been driven by overproduction relative to demand: As mentioned, on its Q4 24 Conference Call, the Company highlighted it revised its channel inventory strategy in H2 24 to reduce certain quarterly volatility and production fluctuations. Further, the Company attributed Q4 24 gross margin pressure (gross margin declined 340 basis points year-over-year) to lower utilization rates (i.e. lower production). In our view, the Company commentary about its revised strategy may be misleading given limited prior commentary regarding the strategy and Q4 24 gross margin pressure attributed to lower utilization rates (i.e. a strategy to level load production should result in consistent production rates). We are concerned dealers maintaining lower-than-expected inventory levels (discussed heretofore) and Trex overproduction relative to demand may have driven the inventory build. Given we believe cautious channel inventory management may persist, we are concerned margins may be pressured and Trex may be compelled to further reduce capacity utilization to right-size inventory levels. We included certain prior commentary below:

- Q1 24 guidance for capacity utilization to decline and production to match revenue cadence:** Previously, on its Q1 24 Conference Call, the Company highlighted it was running at high capacity utilization and guided for capacity utilization to decline “as the year progresses.” In addition, the Company guided for inventory to “work itself down” in Q2 24 and Q3 24 and for capacity utilization to match “the cadence of revenue.”

Analyst: We’re talking about reducing utilization as you go through the year. So, I mean, it sounds like that’s largely related to simply the cadence of revenues through the year. Is there any kind of incremental need to sort of work down inventories from current levels or it’s really just kind of matching that cadence of revenues?

CEO Mr. Bryan Fairbanks: It’s matching the cadence of revenues. And no, there’s no need to be working down either the inventory that we have on our ground, which that will work itself down as we move through second, third quarter. The channel inventory will work itself down through second, third quarter. It’s just normally the way the channel works as the overall market place normalizes back to pre-pandemic-type behaviors. (Q1 24 Conference Call, 05/09/24)

- Q2 24 inventory increase attributed to new products and “no specific” inventory level guidance:** Previously, on its Q2 24 Conference Call, the Company highlighted it built inventory due to certain new decking and railing product launches. The Company highlighted it was “willing” to hold more inventory to service the marketplace but represented it did not have “specific” inventory level guidance.

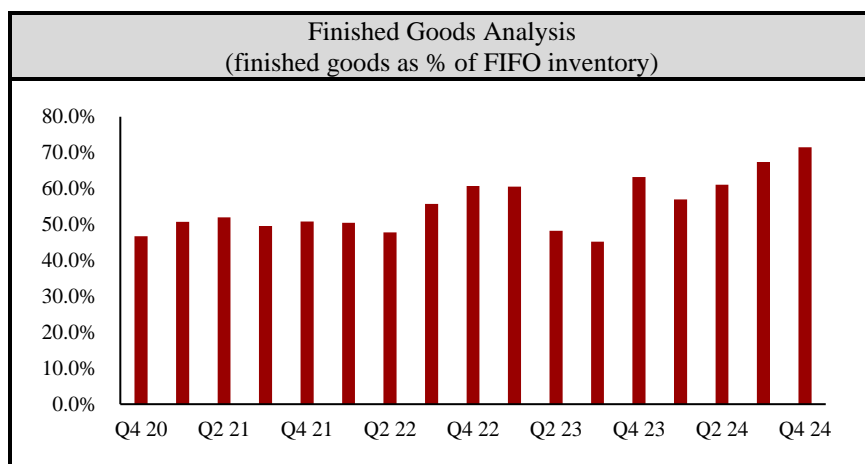
The increase in inventories is the result of increased production, primarily related to the new product introductions in both decking and railing as we prepared for the product launches that Bryan noted earlier. (CFO Ms. Brenda Lovcik, Q2 24 Conference Call, 08/06/24)

- Q3 24 guidance for “heavier” inventory for new products and production volatility reductions:** Previously, on its Q3 24 Conference Call, Trex attributed an inventory build to (1) new product launches and (2) a lack of production volatility. The Company guided to not “seesaw” production levels and for elevated year-end

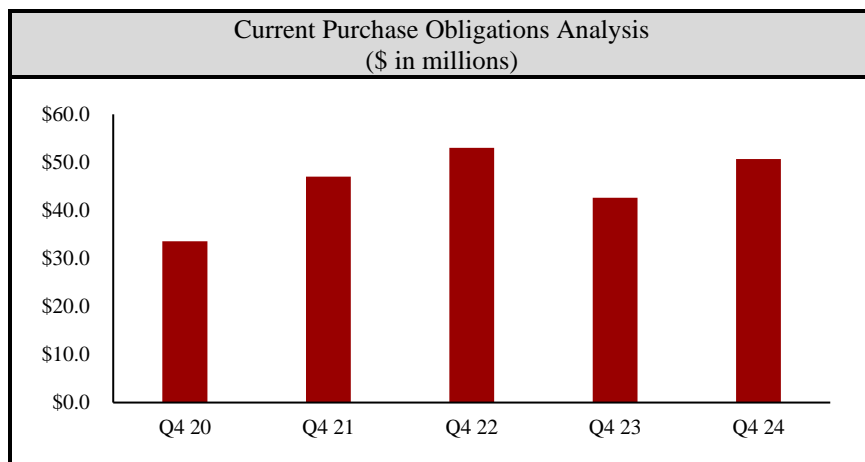
inventories. The Company represented certain changes were “structural.”

We've talked about this a number of times over the past six months. It is twofold. First, it is driven by the new product launches that are coming up...The second part of it is that for a long time we've ramped our capacity up during the busiest parts of the season and pulled it back later on in the year. Given the size of the organization that we are today, we believe it makes more sense to carry a little bit heavier inventory and then reduce the amount of increases and decreases that we put the operation through. It reduces the amount of hiring that we have to bring people and when we bring a line on, we can keep that line running. We can keep the efficiencies at a high level. So, there is a piece of it that will be structural in nature, and we will run with generally higher levels of inventory when we get to the year end as compared to what you've seen in the prior years. (CEO Mr. Bryan Fairbanks, Q3 24 Conference Call, 10/28/24)

Elevated finished goods levels heighten our concerns: In Q4 24, finished goods surged 106.7% year-over-year to \$183.7 million, while total FIFO inventory increased 82.8% to \$257.0 million. Accordingly, finished goods as a percent of FIFO inventory increased 830 basis points to 71.5%, the highest level in at least five years. Elevated finished goods levels heighten our concerns about overbuilt inventory levels.



Material purchase obligations may make near-term inventory normalization difficult, in our view: In Q4 24, current purchase obligations increased 19.0% year-over-year to \$50.7 million, albeit from a soft base period (declined 19.6% in Q4 23). While we acknowledge current purchase obligations were not materially elevated relative to historical levels, we believe material purchase obligations may make near-term inventory level normalization difficult.



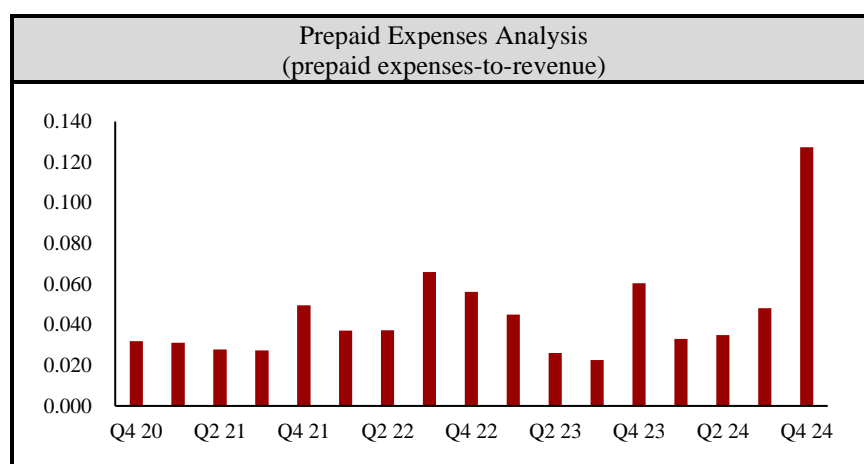
FY 25 gross margin expectations may be optimistic and difficult to achieve: As of the date of this publication,

the consensus expects gross margin to decline 20 basis points to 42.0% from an elevated base (FY 24 gross margin was the highest level in at least five years). Given we believe inventory levels are materially elevated and the Company may be compelled to reduce production volumes, we believe FY 25 gross margin expectations may be optimistic and difficult to achieve.

Gross Margin Analysis	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25E
Gross margin	40.8%	38.5%	36.5%	41.3%	42.2%	42.0%
Year-over-year change	(30 bps)	(230 bps)	(200 bps)	480 bps	90 bps	(20 bps)

Prepaid Expense Surge May Highlight Potential Margin Pressure

In Q4 24, prepaid expenses surged 80.5% year-over-year to \$21.4 million, while revenue declined 14.4% to \$167.6 million. Accordingly, prepaid expenses-to-revenue surged 110.8% to 0.127, the highest level in at least five years. The Company did not discuss the prepaid expense surge on its Q4 24 Conference Call or in its FY 24 10K. In our view, the prepaid expense surge suggests margins may be pressured as expenses are recognized through the income statement.



Arkansas Plant May Drive Depreciation Ramp And/Or Overcapacity

Background on Arkansas plant: In its FY 24 10K, the Company highlighted it began construction, in FY 22, on a previously announced manufacturing facility in Little Rock, Arkansas. The Company highlighted the campus development would be “modular” and primarily related to Trex Outdoor Living products.

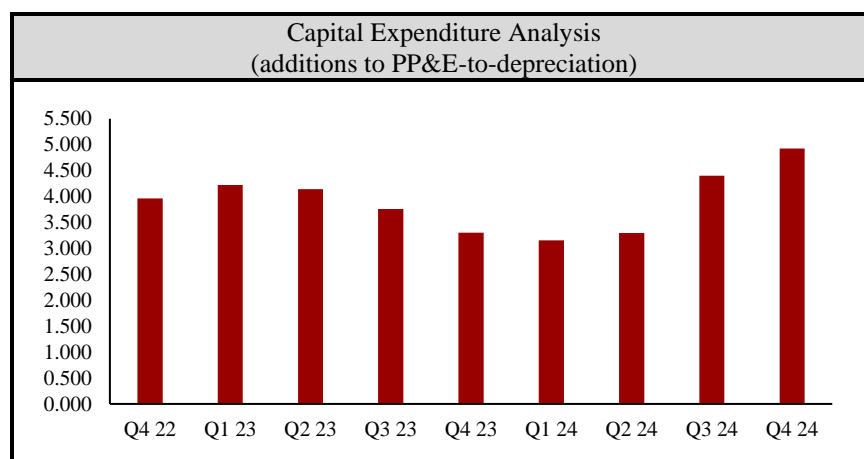
In October 2021, the Company announced plans to add a third manufacturing facility located in Little Rock, Arkansas (Little Rock). that will sit on approximately 300 acres of land. Construction began on the new facility in 2022. The development approach for the new campus will be modular and calibrated to demand trends for Trex Outdoor Living Products. (FY 24 10K)

Background on additions to PP&E: Previously, in its FY 22 10K, the Company began disclosing capital expenditures in accounts payable and accrued expenses (i.e. non-cash capital expenditures). We estimated property, plant, and equipment (PP&E) additions as cash capital expenditures plus additions to capital expenditure in accounts payable and accrued expenses.

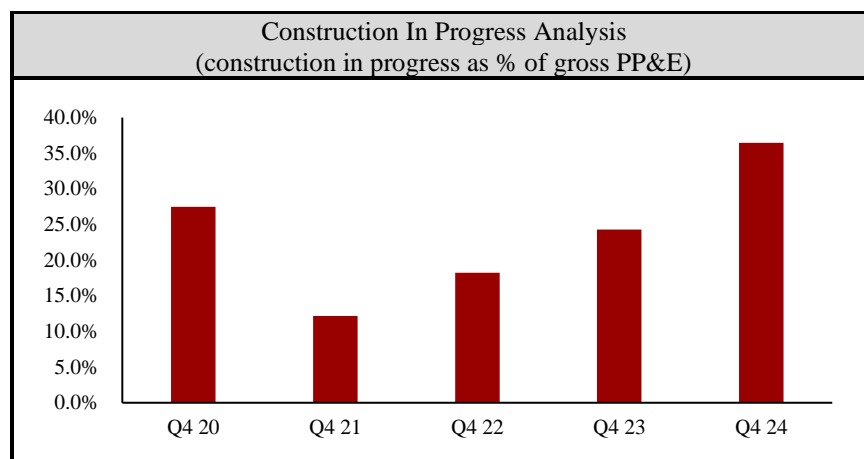
Additions To PP&E Analysis (\$ in millions)	12M Ended Q4 24
Cash expenditures for PP&E (per cash flow statement)	\$232.3
Beginning capital expenditures in accounts payable and accrued expenses	(\$1.3)
Ending capital expenditures in accounts payable and accrued expenses	\$38.1
PP&E Additions (Voyant estimate)	\$269.1

Elevated PP&E addition levels suggest depreciation may ramp, in our view: In the twelve months ended Q4 24, PP&E additions surged 62.5% year-over-year to \$269.1 million, while depreciation and amortization increased 8.9% to \$54.7 million. Accordingly, PP&E additions-to-depreciation and amortization surged 49.2% to 4.923, the highest level in at least three years. In its FY 24 10K, the Company attributed elevated capital expenditures primarily to the construction of its Arkansas facility. In our view, the PP&E additions level surge suggests margins may be pressured as assets are placed into service and depreciation commences.

We regularly evaluate our various facilities and equipment and make capital investments where necessary. In 2024, we spent a total of \$232.3 million on capital expenditures, primarily at our Trex Residential facilities, including \$174.8 million related to construction of our Arkansas facility, \$14.7 million related to capacity expansion at our Virginia facilities, \$14.5 million related to general plant cost reduction initiatives at our Virginia and Nevada facilities, and \$17.0 million for general support, safety and environmental initiatives. (FY 24 10K)



Construction in progress levels highlight future depreciation ramp: In Q4 24, construction in progress (CIP) surged 87.0% year-over-year to \$463.2 million, while gross PP&E increased 24.6% to \$1,271.2 million. Accordingly, CIP as a percent of gross PP&E increased 1,220 basis points to 36.4%. On its Q4 24 Conference Call, the Company guided for certain operations of its Arkansas campus to commence in Q1 25. Elevated construction in progress levels heighten our concerns about a depreciation ramp given a material (in our view) portion of PP&E has not been placed into service and depreciation has not commenced. Given guidance for certain Arkansas operations to commence in Q1 25, we believe the depreciation ramp may begin in FY 25.



Capital expenditure surge may drive near-term overcapacity: On its Q4 24 Conference Call, Trex guided to have over \$2,000.0 million of production capacity once the Arkansas campus was completed, 63.9% above its FY 25 revenue guidance of \$1,220.0 million at midpoint. Given historically elevated inventory and guidance for new capacity to begin to come online in Q1 25, we believe near-term capacity may be overbuilt and our concerns about capacity underutilization driven margin pressure are heightened.

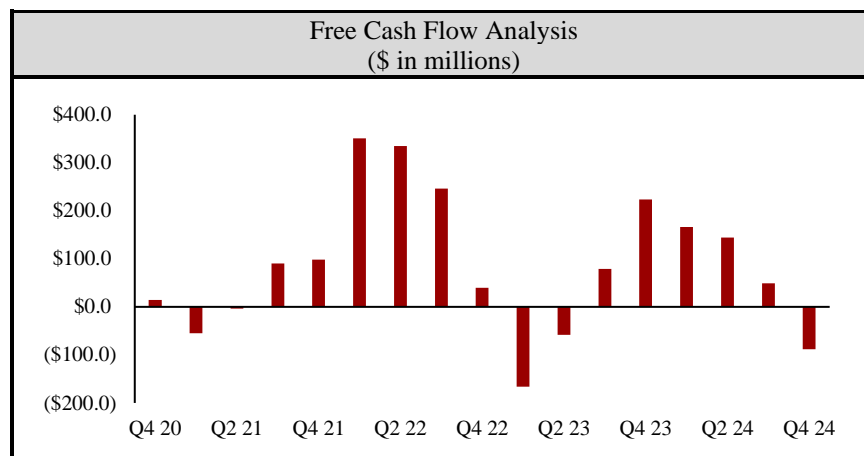
Once completed, Arkansas will be our most efficient production site and it will give Trex total manufacturing capacity of more than \$2 billion in sales. The majority of the capital spending related to the Arkansas campus will be completed this year. (CEO Mr. Bryan Fairbanks, Q4 24 Conference Call, 02/24/25)

Capacity Analysis (\$ in millions)	Guidance
Capacity guidance	> \$2,000.0
FY 25 revenue guidance	\$1,220.0
<i>Capacity above (below) FY 25 guidance</i>	<i>63.9%</i>

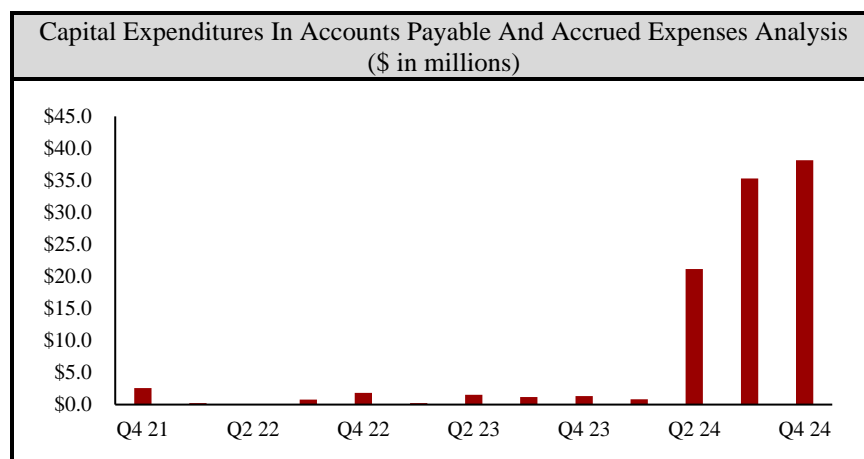
Depressed Free Cash Flow Despite Non-Cash Capex Highlights Elevated Earnings Risk

Depressed free cash flow levels highlight elevated earnings sustainability risk, in our view: In the twelve months ended Q4 24, free cash flow (i.e. cash flow from operations less capital expenditures) declined \$311.7 million year-over-year to negative \$88.4 million. In its FY 24 10K, the Company attributed certain cash flow pressure to inventory and accounts receivable cash consumption (inventory and accounts receivable consumed \$147.4 million of cash in the period). In our view, depressed cash flow levels driven by working capital cash consumption highlight increased earnings sustainability risk.

The \$216.2 million decrease in cash provided by operating activities was primarily a result of an increase in inventories, and to a lesser extent, impacted by increases in accounts receivable. (FY 24 10K)



Non-cash capital expenditure surge may have benefited free cash flow levels: As mentioned, in its FY 22 10K, the Company began disclosing capital expenditures included in accounts payable and accrued expenses (i.e. non-cash capital expenditures). In Q4 24, non-cash capital expenditures surged \$36.8 million year-over-year to \$38.1 million. Given the Company has not paid for capital expenditures included in accounts payable and accrued expenses, we believe the non-cash capital expenditure surge may have benefited free cash flow levels and our concerns about depressed cash flow levels are heightened.



Conclusion

We are concerned entry-level product demand weakness may persist and FY 25 guidance may be optimistic and difficult to achieve in an uncertain/challenging macro environment. We are concerned channel inventory management may persist as distributors/dealers may prefer to carry lower-than-typical inventory levels and near-term revenue may be pressured. Muted Q1 25 restocking guidance despite a potential increased shelf space sell-in benefit, elevated large distributor inventory levels, and large distributor commentary highlighting customers (i.e. dealers) focus on working capital management heighten our concerns. We are concerned inventory may be materially overbuilt and FY 25 margin expectations may be optimistic to the extent the Company is compelled to reduce production levels. In our view, commentary about a new channel inventory “strategy” and production volatility reductions may be misleading given limited prior commentary about the strategy and Q4 24 margin pressure attributed to lower utilization rates. Elevated finished goods levels and material purchase commitments heighten our inventory concerns. We believe a prepaid expense level surge suggests margins may be pressured as expenses are recognized through the income statement. We are concerned elevated additions to property, plant, and equipment and construction in progress levels and the planned opening of a new manufacturing facility suggest

depreciation may ramp and/or the Company overbuilt capacity. Depressed free cash flow levels despite a non-cash capital expenditure surge heighten our earnings sustainability concerns.

Risks to Our Thesis & Valuation

Railing, Cost Advantages, Low Wood Alternative Penetration, TAM, & Market Position

Railing expansion and distributor exclusivity agreements: In its 11/13/24 Press Release, Trex highlighted two of its exclusive decking distributors, Snavely Forest Products (private) and Boise Cascade, agreed to exclusively sell Trex railing products. Trex guided for “all” distribution partners to be exclusive to Trex in both decking and railing. On its Q4 24 Conference Call, Trex guided for its railing market share to double from 6.0% to 12.0% over the next five years.

Railing Market Share Analysis (\$ in millions)	FY 23	FY 28G
US railing market share	6.0%	12.0%

Lifetime cost/maintenance vs. wood: In its Investor Presentation on 11/04/24, Trex represented the lifetime cost of a Trex Enhance deck was \$8,250.00 less than a wood deck over a 25-year period. Specifically, Trex represented an average wood deck would have to be rebuilt within the 25-year warranty period of a Trex Enhance deck and require an additional \$2,500.00 of maintenance costs.

25-Year Cost Ownership Analysis (per 11/04/24 Investor Presentation)	Wood Deck	Trex Enhance Deck
Deck 1 labor and material cost	\$6,400.00	\$7,050.00
Deck 2 rebuild cost	\$6,400.00	--
Maintenance	\$2,500.00	--
Total	\$15,300.00	\$7,050.00

Low wood alternative decking penetration: In its Investor Presentation on 11/04/24, Trex highlighted as of FY 22, wood accounted for 76.0% of the deck market, while wood alternatives accounted for 24.0%. Trex highlighted each 1.0% wood alternatives penetration growth drove \$80.0 million of additional annual composite decking sales.

Wood Alternative Penetration Analysis (\$ in millions)	FY 22
Wood	76.0%
Wood alternative	24.0%
Total	100.0%

Large addressable market provides opportunity for growth: In its Investor Presentation on 11/04/24, Trex highlighted it had a large addressable market, which provided opportunity for organic growth in decking, railing, and adjacencies in addition to pricing and M&A potential. Specifically, Trex highlighted its decking total addressable market (TAM) was \$8,000.0 million, railing TAM was \$3,300.0 million, and its adjacencies TAM was \$2,400.0 million.

Opportunity for organic growth across decking, railing and adjacencies, along with pricing and strategic acquisition potential. (Investor Presentation, 11/04/24)

TAM Analysis (\$ in millions)	TAM
Decking	\$8,000.0
Railing	\$3,300.0
Adjacencies	\$2,400.0
Total	\$13,700.0

Leading US decking and railing market share: In its Investor Presentation on 11/04/24, Trex highlighted it had the leading market share of the US decking and railing market with 13.0%, while Competitor 2 had 8.0%, and Competitor 3 had 3.0%.

Decking And Railing Market Share Analysis (% of US decking and railing market)	FY 24
Trex	13.0%
Competitor 2	8.0%
Competitor 3	3.0%
Other	76.0%
Total	100.0%

Valuation Analysis

As of the date of this publication, Trex shares trade at 27.4 times next-twelve-month earnings, 42.7% above its peer average of 19.2 times.

Valuation Analysis	NTM P/E
Trex Company, Inc. (TREX)	27.4x
AZEK Co., Inc. Class A (AZEK)	28.0x
Fortune Brands Innovations, Inc. (FBHS)	14.4x
UFP Industries, Inc. (UFPI)	15.3x
Peer average	19.2x
<i>TREX above (below) peer average</i>	<i>42.7%</i>

Disclaimer and Disclosure

This report was produced by Voyant Advisors, LLC (“Voyant”). The following Research Analysts employed by Voyant contributed to this report: Graeme Lazarus, Ryan DesJardin, Andrew Brown, and Adam Yribarren. Voyant’s home office is at 15373 Innovation Dr, Suite 365 San Diego, CA 92128. The firm’s home office is where information about the valuations herein are located, unless otherwise indicated in the report.

At the time of this report, Voyant expects to provide updates on a quarterly or semi-annual basis depending on the frequency of when the above company discloses material financial results. We will cease providing updates if we are discontinuing research coverage as disclosed on the front page of this report in the Thesis Summary.

Voyant has not provided previous recommendations concerning the same financial instrument or issuer during the preceding twelve-month period.

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