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Centex fits with Pulte's products

*BY TOM WALSH
FREE PRESS COLUMNIST*

Two months ago, Timothy Eller, head of Dallas-based home builder Centex, called with a marriage proposal for Richard Dugas, president and CEO of Pulte Homes Inc. in Bloomfield Hills.

Eller's pitch went something like, hey, since we're both slogging through the worst housing market since the 1930s, you think maybe we could come out of this stronger and healthier if we live under one corporate roof?

Was Dugas surprised?

"I wouldn't say surprised. I was pleased," Dugas said in an interview Wednesday, a few hours after Pulte and Centex announced a \$1.3-billion stock swap deal to create the nation's largest home builder.

Pulte will be the big dog in this union, with Pulte shareholders owning 68% vs. 32% for Centex, and Pulte taking eight seats on the board to Centex's four. The Pulte name will be retained and headquarters will be in Bloomfield Hills, with a presence maintained in Dallas. Dugas will be chairman and CEO; Eller will be vice chairman and a consultant for two years.

The deal positions Pulte to be among the survivors of the worst U.S. housing collapse since the Great Depression. Both Pulte and Centex lost money the past two years as new home sales plunged 75% after peaking in mid-2005.

The companies are a natural fit in two respects:

- Centex homes are strong sellers among first- and second-time buyers, while Pulte's Del Webb brand is the industry leader in the active-adult market for baby boomers reaching retirement age.
- Pulte is strong in Arizona and New England, while Centex is big in Texas and the Carolinas.

Pulte agreed to pay Centex shareholders a 32% premium over the recent price range for Centex shares, which helped push Centex shares to \$9.06 Wednesday, up from \$7.62 the previous day. Pulte stock fell 10.5% for the day to \$9.64.

A possible downside for the deal is the risk of a further slide in land values. Both companies have cut land inventories during the slump -- Centex pulled out of Michigan last year -- but Pulte and Centex still control nearly 190,000 lots nationwide.

Dugas, however, said more than 50,000 of those lots are ready for building and will be able to generate cash quickly when the market turns upward.

In a conference call with investment analysts, Dugas said the companies have a combined \$3.4 billion in cash and expect \$350 million in savings from the merger, including some job eliminations

that he did not specify.

"We believe this is the right combination at the right time," he said. "We will enjoy the first mover advantage by merging with our preferred partner."

Russell Long, a partner in turnaround-management firm O'Keefe and Associates in Bloomfield Hills, viewed the deal as a "lifesaving maneuver."

"With that much cash, they should be able to withstand whatever happens," said Long, who is acting as a receiver for 16 troubled real estate projects.

Dugas said he sees signs that the housing market may be stabilizing soon, albeit at low levels. New home sales rose 4.7% nationwide in February.

The Centex purchase, expected to close by September, "puts us in an excellent position to navigate through the current housing downturn," he said.

Assuming he's right, it's also nice to know that the largest U.S. homebuilder will be nestled in Michigan. "We're very comfortable with headquarters in Detroit," he said when I asked whether the company had thought about a move to Dallas like Comerica Bank made in 2007.

That's a relief. The last thing Michigan needs is another big company migrating south.

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What they said

"THERE ARE A LOT OF UNKNOWNNS WHENEVER YOU HAVE A MERGER OF COMPANIES. BUT TO HAVE THIS COMPANY HEADQUARTERED IN MICHIGAN IS VERY IMPORTANT. WE HAVE THE BRAGGING RIGHTS TO BE HOME TO THE NATION'S LARGEST HOMEBUILDER."

LIZ BOYD, spokeswoman for Gov. Jennifer Granholm.

"I THINK THIS MERGER WITH PULTE AND CENTEX IS SOMETHING TO GENERATE OPTIMISM. IT TELLS ME THEY ARE LOOKING FORWARD. IT'S NOT JUST HOW DO WE GET THROUGH TODAY. THEY ARE GOING TO BE THE BIGGEST HOMEBUILDER IN THE COUNTRY."

HOWARD FINGERROOT, managing partner of Pinnacle Homes and former president of Pulte Land Development.

"THERE IS SO MUCH INVENTORY OF HOUSES, PULTE WON'T HAVE TO BUILD HOUSES FOR YEARS EVEN WHEN THERE IS A RECOVERY. THERE IS NOT GOING TO BE A LOT OF BUILDING, AND THE HOUSING INDUSTRY IS GOING TO BE A LOT SLIMMER FOR A NUMBER OF YEARS."

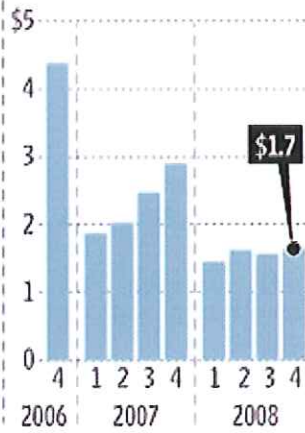
KEN DALTO, a Farmington Hills-based turnaround expert.

Pulte Homes

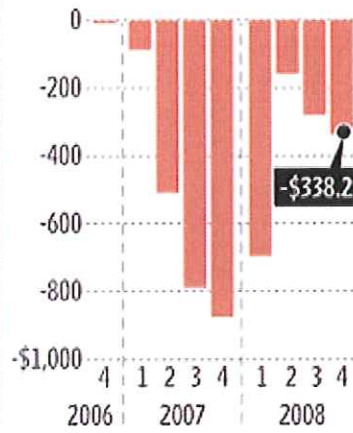
Stock price



Sales
(quarterly, in billions)



Net income
(quarterly, in millions)

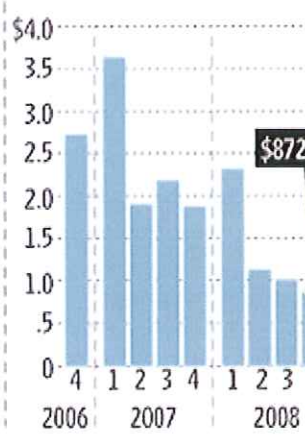


Centex Corp.

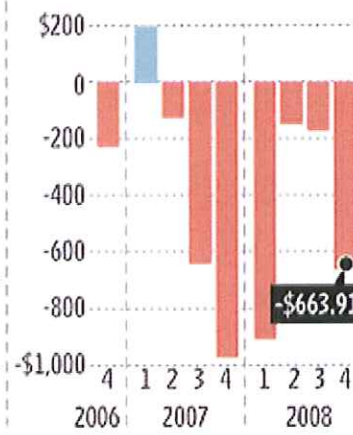
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Source: Free Press research

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