

# Clayton buying Alabama Builder

New Tazewell firm, owned by Southern Energy Homes, happy to join solid team

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Clayton Homes' acquisition of an Alabama builder will further solidify its No. 1 position among manufactured housing companies, and it's also good news for relatively tiny Giles Industries in New Tazewell.

"Anytime you get hooked up with Berkshire Hathaway, there's a lot of stability in that," said Giles President Alan Neely, referring to the holding company of the world's second-richest man, Warren Buffett.

Berkshire offers enormous financial backing while generally letting a firm's existing executives stay in charge, as it did after buying Blount County-based Clayton Homes for \$1.7 billion in 2003.

Southern Energy Homes Inc. of Addison, Ala., bought Giles in an \$18.5 million deal in March.

Wednesday's news that Clayton is buying Southern Energy in a roughly \$110 million deal brings Giles into the Berkshire fold, too.

Clayton is getting seven manufacturing facilities from Southern Energy, including Giles' two Claiborne County plants, which employ about 500 workers in the rural community and produce some 2,400 homes annually. The other Southern plants are in Alabama and Fort Worth, Texas.

Clayton will control 25 percent of the manufactured housing sector when the deal closes within 60 days, CEO Kevin Clayton said. Fleetwood is second at about 16 percent. Champion is third (13 percent) and Southern Energy is fourth (5 percent).

Southern Energy sells about 7,000 homes per year in more than 20 states under five brand names through more than 350 retailers.

"They really do dominate some of the markets we don't - Mississippi, Alabama, markets south of us particularly," said Rick Strachan, president of Clayton's manufacturing division.

Clayton has 36 plants, 448 retail stores, 1,400 independent retailers, 13,000 employees and 71 housing communities, as well as financial services operations serving more than 435,000 customers with some \$17 billion in loans outstanding.

"This takes us from 36 plants to 43, and we'll be producing over 38,000 homes annually," Clayton said. "And this will move revenues to over \$3.7 billion."

That's more than triple the company's annual revenue before Berkshire bought it and provided the financial backing needed to help Clayton begin expanding its share of the beaten-down manufactured housing sector.

Clayton has acquired bankrupt Oakwood Homes, Western U.S. builder Karsten Homes, 123 retail stores from Fleetwood, and financial portfolios including \$4 billion in loans from Chase and \$1.4 billion from Citigroup.

Why buy? Clayton already was a Southern customer and saw a similar family-company culture in the Alabama firm.

"It fits our criteria of looking for great companies with great people who want to stay onboard (as executives)," Kevin Clayton said. "It's managed by Keith Holdbrooks, who is a terrific manager who took this company and has really grown it the last few years. In fact, we think so much of it that our Clayton retail company buys 30 percent of what they produce.

"The relationship dates back to the 1980s and we think they will continue to be successful, so why not make them a part of us?"

Executives expect no plant closings or layoffs as a result of the merger.

"Their plant locations are where we are not," Strachan said. "They do have a plant in Texas, but we're not in the Fort Worth area, and they have a different set of distribution retailers, so we're enhancing the total company's distribution network.

"They really do complement our product lines, designs and our distribution."

Clayton said Southern Energy is known for customizing homes and that, as with other acquisitions, Clayton will learn from its new stand-alone division.

Holdbrooks said he has emulated industry-leading Clayton and explained how the company has focused on adapting for customers since his uncle started it in 1982.

"If you drew out a floor plan on a piece of paper, we could take it to our engineering and they would put it to scale and put it to codes and be able to build that house," Holdbrooks said. "That's the depth of our customization."

Why sell? In an industry that suffered for years from loose lending practices that soured Wall Street, the opportunity to partner with Clayton was attractive.

Southern Energy shareholders will receive \$8.50 per share in cash in the deal.

"The fact that we're able to bring a 30-percent premium to our shareholders in an industry that is still struggling and having some hard times is a wonderful opportunity (and offers) long-term stability for our associates," Holdbrooks said.

He said the company employs close to 2,000. It reported net income of almost \$9 million on \$202.8 million in revenue in 2005.

The Clayton deal hadn't begun to transpire when Southern Energy bought Giles, Holdbrooks said.

The Giles deal let Southern Energy gain access to Giles' markets in Tennessee, Virginia and the Carolinas.

From Giles' perspective, the sale to Southern Energy was an opportunity for a third-generation company to liquidate at a high point. The company was finishing a strong run supplying homes and travel trailers to Gulf Coast states that were rapidly selling out of the ready, inexpensive housing in the wake of last year's hurricanes.

Neely was the managing partner in a group of six siblings and two aunts. The company was founded in 1959 by his grandfather, R.O. Giles, and in addition to manufactured homes makes travel trailers through its SunRay affiliate.

"We're really pleased to be a part of this," Neely said. "Clayton's our largest dealer. We do a lot of business with Clayton, have the utmost respect for them and are glad to be part of their organization."