

No Thanks, Mr. Buffett; Warren wants to buy you out? Think very carefully.

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The secret is finally out on Warren Buffett's success: He's cheap

James Clayton was evidently thrilled that no less an eminence than Warren Buffett wanted the company he founded 36 years ago, **Clayton Homes**. Buffett offered \$12.50 a share in cash for the mobile home manufacturer. That was a 12% premium to the predeal trading price, and it would come to \$475 million for Clayton's 28% stake. Inside Buffett's AAA-rated Berkshire Hathaway, **Clayton Homes** would have access to all the cheap financing it might need to offer mortgages to buyers. The 69-year-old founder and his son Kevin can expect to be kept on to run the company, since that is the usual procedure when Buffett buys a business.

Some of Clayton's fellow shareholders, however, are not thrilled. They say Buffett's offer is too stingy. "It's flattering that he's interested," says William Gray, a self-described Buffett fan and president of Orbis Investment Management, which has a 5% stake in Clayton. "But I'd like to capture value for my shares, too." Siding with Gray is Carl Tash of Cliffwood Partners, which owns 1.1% of Clayton.

In April Gray filed a proposal to have the deal subject to a shareholder vote that would exclude top Clayton officers. He says the insiders have an interest in approving the acquisition because Buffett has agreed to retain them. Buffett has denied cutting any special deals with management, but the dissidents are pressing for details of the merger contract. One aggrieved shareholder recently filed a class action in Delaware to stop Clayton from closing the purchase.

The mobile home industry has been in a four-year funk following a period of irrational exuberance and overexpansion in the 1990s. The business seems to be bottoming out. Why sell out now? Even with the merger premium, Clayton shares would be fetching 60% of what they traded at a year ago.

"I'm perplexed," says Joseph Stegmayer, a former Clayton president who now heads the mobile home business at Centex Corp. "Jim Clayton is not one to be scared by down cycles."

Buffett isn't the only bottom fisher jumping into this industry. In March Cerberus Capital Management joined with two other private equity firms to buy Conesco Finance, a mobile home mortgage issuer, out of bankruptcy for \$785 million. Last month Manufactured Home, owned 16% by Sam Zell, bid \$1.8 billion for the mobile home community business of Chateau Communities. If Buffett captures Clayton, it will be his second dip into the business. He soon will be the largest shareholder in Oakwood Homes, thanks to special bankruptcy loans that moved his claim on assets ahead of other creditors' claims.

The Clayton buyout price comes to 14 times trailing earnings. Jim Clayton recently boasted to the local press that this is the highest multiple Berkshire Hathaway has paid for a company in five years. Others note that Clayton was able to earn an average 15.5% on its shareholder equity in the years between the trough in the last cycle in 1991 and the onset of problems in this new one in 1999. Such a return on last year's \$1.26 billion in equity would be \$195 million, or \$1.43 a share. By this rough measure Buffett may be paying more like 9 times earnings.

Gray says Clayton's biggest mistake was acceding to the usual Buffett condition that it solicit no rival offers. Jim Clayton does not agree, and if he wins another 23% of the vote, that will--presumably--end the matter.