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Pulte to Buy Centex in Housing Bet

By [MICHAEL CORKERY](#)

Pulte Homes Inc. said it plans to acquire Centex Corp. for \$1.3 billion in stock in a deal that would create the nation's largest home builder and amount to a big bet that the housing market is nearing bottom.

The surprise deal is the largest merger in the home-building industry since the housing downturn began about three years ago and comes amid mixed signals about whether the worst is over.

Pulte Homes and Centex will have a combined \$3.4 billion in cash, the largest stockpile in the industry.

The merged company would control nearly 190,000 housing lots in 29 states, one of the largest land supplies in the industry and be a major builder of homes for first-time home buyers and retirees.

Through the transaction, which must be approved by shareholders of both companies, Pulte would be able to tap Centex's \$1.7 billion in cash. That would give the combined company \$3.4 billion in cash, the most in the industry and a critical factor in paying down debt and maintaining operations while home sales are slow.

The merger also would give Pulte access to Centex's extensive property holdings and a brand geared toward first-time home buyers, a segment that is likely to remain one of the industry's strongest over the next few years as the government seeks to boost demand through low mortgage rates, tax credits and other subsidies.

Heard on the Street

- [Pulte Seeks Shelter in a New House](#)

The deal follows recent signs that the housing market is starting to stabilize, with both new- and existing-home sales having risen in February. But many on Wall Street haven't made much out

of those numbers because about half of the sales currently are by lenders on foreclosures and other distressed homes, and values are continuing to decline.

Some analysts said Pulte's bid for Centex is a sign that one of the nation's largest home builders believes conditions are nearing a bottom. They said Pulte wouldn't be buying Centex -- adding its roughly 68,000 controlled lots to Pulte's supply of about 120,800 -- unless it believed that sales were stabilizing. Typically, many builders have acquired rivals when they have needed to replenish their land supply.

Pulte's plan to acquire Centex represents a bet that the worst in the housing-industry downturn is over. The deal comes amid mixed signals over whether a bottom has been reached

The deal "signals to me that Pulte management believes the market is not going to get worse from here," said Paul Puryear, an analyst at Raymond James & Associates. "But I don't think the rest of the industry shares that view."

Pulte Chief Executive Richard Dugas, in a conference call with investors, said there are positive signs in the market. He said first-quarter orders appear better than in the fourth quarter, although that is typically the case because of seasonality.

But Mr. Dugas said the signs of improvement in the housing market were not the "primary driver" of the merger. Rather, he said cost savings and other benefits were the main reasons for the deal. The combined company expects to save \$350 million annually, partly by reducing overlapping overhead. "We believe the combined companies will allow us to get to profitability quicker," Mr. Dugas said in an interview.

Investors were wary. In 4 p.m. composite trading Wednesday on the New York Stock Exchange, Pulte shares were down \$1.13, or 11%, to \$9.64.

Shares of most other home builders rose, possibly signaling that some investors believe other mergers are likely. But many observers think this deal is unique. Dallas-based Centex is one of the few builders that has been trading at less than book value but has a relatively healthy balance sheet. Other heavily discounted builders, like Beazer Homes USA Inc. and Hovnanian Enterprises, have debt levels that could worry potential buyers.

Crossing the Threshold

Some key figures for the prospective merger partners

	Pulte	Centex
Cash	\$1.7 billion	\$1.7 billion
Debt	\$3.2 billion	\$3.2 billion
Homes closed in past 12 months	21,022 units	18,241 units
Land	120,796 lots controlled	68,656 lots controlled

Sources: the companies; Fox-Pitt Kelton

But the new company could also be taking on more risk. Moody's Investors Service placed the companies' combined debt ratings under review for possible downgrade. Specifically, Moody's said it was examining whether the new company's larger land portfolio would increase risks to debt holders. It is possible that Pulte will have to write down Centex's landholdings as home prices keep sliding.

On the other hand, Centex has large landholdings in Texas and the Carolinas, where home sales have held up relatively well. Pulte, of Bloomfield Hills, Mich., would be gaining an important foothold in these markets through the merger. The deal would also allow Pulte to reduce its exposure to the active-adult retirement market, where much of its sales has been concentrated.

Under the terms of the proposed deal when announced, Centex shareholders would receive 0.975 share of Pulte common stock for each share of Centex they own. Based on the \$10.77 closing price of Pulte stock on Tuesday, the transaction values Centex at \$10.50 a share, a 38% premium over Centex's Tuesday close of \$7.62. Centex shares on Wednesday rose \$1.44, or 19%, to 9.06.

Mr. Dugas will be the president and CEO of the newly combined company. Centex CEO Timothy Eller will join Pulte's board as vice chairman and will serve as a consultant to the company for two years after the deal closes.

Courtesy of JB Goodwin