

Homebuilding in Uncertain Times

April 2020

“Prepare for the worst but hope for the best - the former makes you sensible, and the latter makes you an optimist.”

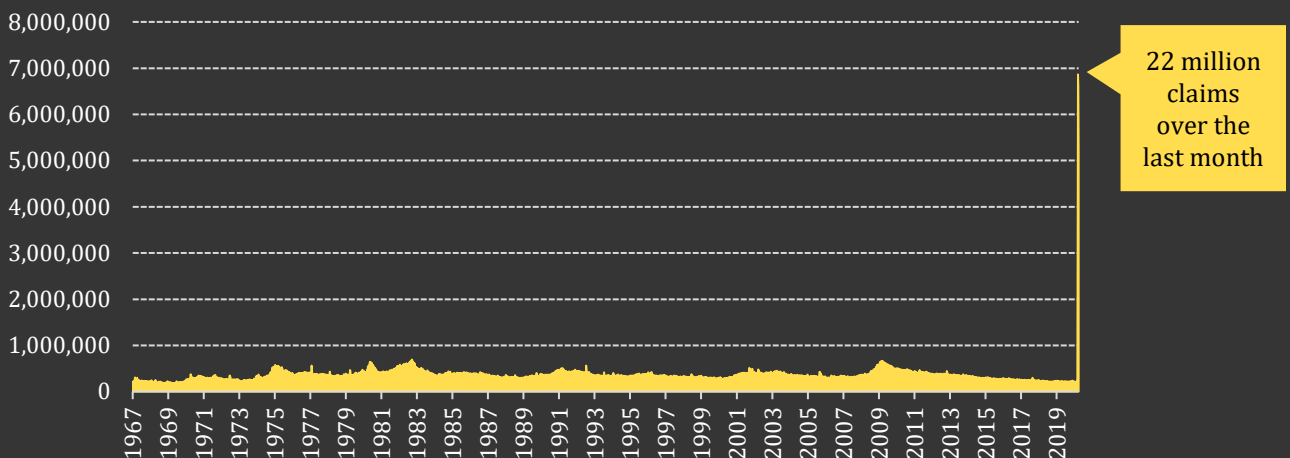
- Dale Carnegie

Coronavirus Has Had a Profound Impact

As of April 20, 2020, over 40,000 Americans have lost their lives as a result of COVID-19. The coronavirus pandemic has resulted in historic unemployment claims in the U.S. and has many economists calling for 20+ percent declines in U.S. GDP in the second quarter of 2020.

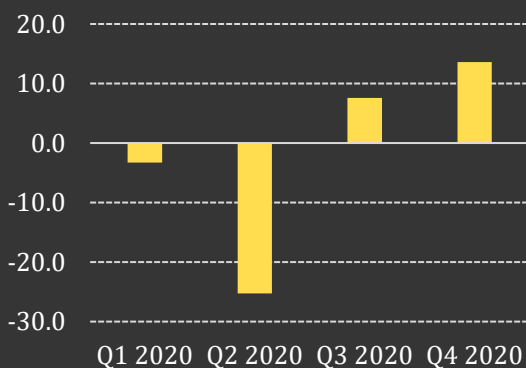
The depth of the disruption caused by these unprecedented losses and the duration of the pandemic could have a far-reaching impact on the U.S. economy and the U.S. homebuilding industry.

Unemployment Claims



Source: St. Louis Fed (as of April 20, 2020)

GDP Growth (%)



Source: Fannie Mae economic forecast (April 2020)

40,000+

Deaths in the U.S.
(through April 20th)

Source: Johns Hopkins

What We Can Learn from History

In the early stages of the Great Recession some economists dismissed the possibility of a recession and called for a rapid recovery in the housing market. Once the Great Recession started, many economists predicted a brief downturn followed by a rapid recovery.

NATIONAL REVIEW

December 10, 2007

“Even the housing market has its share of positive developments. Mortgage refinancings are up nearly 70 percent as mortgage rates on fifteen- and thirty-year loans are down nearly 100 basis points. Such events may help cushion the plunge in home sales and will eventually stabilize prices.” – Larry Kudlow

THE WALL STREET JOURNAL.

Why Economists Are Betting a Recession Won't Happen

December 17, 2007

The New York Times

Some Forecasters See a Fast Economic Recovery

January 2, 2009

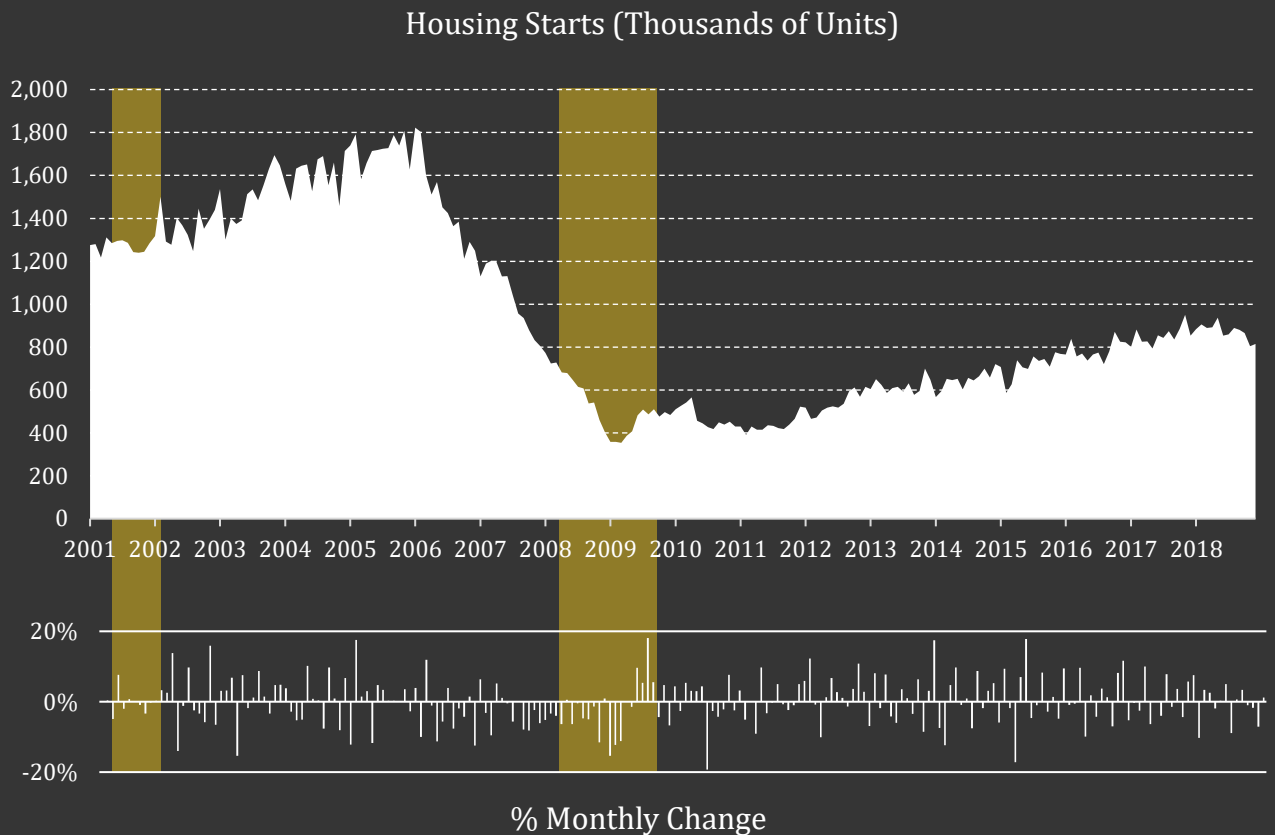
LA Times

A Land that Recession Forgot

April 11, 2009

The Great Recession: A Lasting Impact on Housing

Before the Great Recession declines in housing starts were typically short-lived and the market recovered quickly. However, the Great Recession showed that economic downturns can have a long-lasting impact on the homebuilding industry. Years after the end of the Great Recession, housing starts remain significantly below pre-recession levels. The effect of the Great Recession was profound and transformational for the U.S. housing industry and for homebuilders.



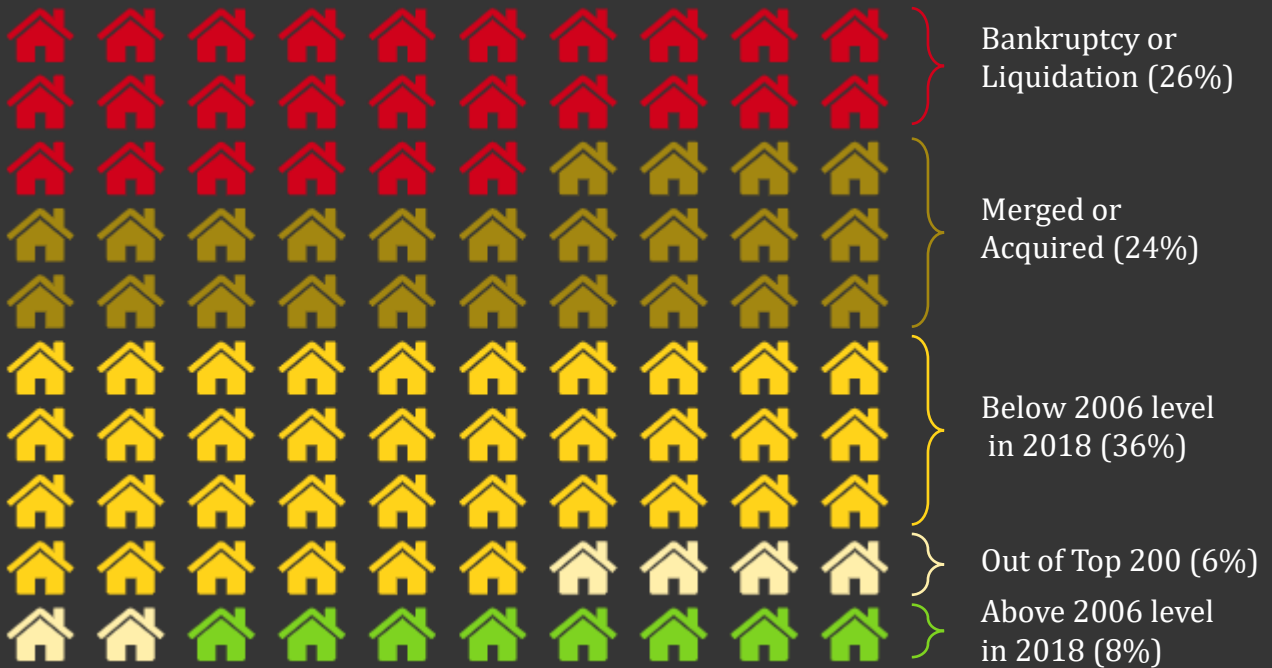
Privately Owned Housing Starts 1-Unit Structures
Source: US Census Bureau

Shaded area
indicates US recession

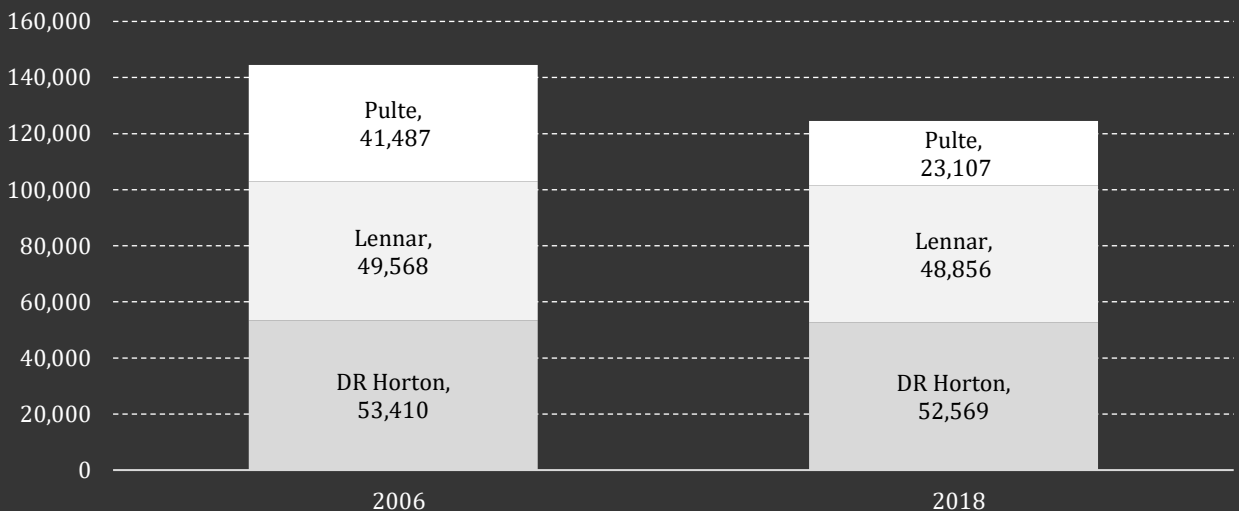
While it is too soon to draw any parallels between the coronavirus pandemic and prior recessions, it is prudent to recognize the potential risks for the economy and homebuilders. In prior downturns, quick and decisive action was critical to navigate challenging markets and position for the eventual recovery.

The Great Recession: A Profound Effect on Builders

The Great Recession reshuffled the homebuilding industry. As many as 26% of the builders that made the top 50 list in 2007 went bankrupt and/or liquidated their business. Another 24% merged or were sold; some only after first declaring bankruptcy and emerging. To this day, many remain below their pre-recession annual closings.



Total Closings for the Top 3 Builders in 2006 and 2018



Source: Builder Magazine, public filings, news reports

Note: Pulte acquired Centex in 2009. In 2006, Centex had 37,539 closings.

Fate of the Top 50 Builders in 2007

The landscape of the top 50 builders has changed dramatically since 2007.

2007 RANK	COMPANY	2006 TOTAL CLOSINGS	2018 TOTAL CLOSINGS	Comments
1	D.R. Horton (p)	53,410	52,569	
2	Lennar Corp. (p)	49,568	48,856	
3	Pulte Homes (p)	41,487	23,107	
4	Centex Corp. (p)	37,539	n/a	Merged
5	KB Home (p)	32,124	11,317	
6	Hovnanian Enterprises (p)	20,201	5,758	
7	Beazer Homes USA (p)	17,500	5,767	
8	The Ryland Group (p)	15,392	n/a	Merged
9	NVR (p)	15,139	18,447	
10	M.D.C. Holdings (p)	13,123	6,197	
11	Standard Pacific Corp. (p)	10,763	n/a	Merged
12	Meritage Homes Corp. (p)	10,487	8,531	
13	Technical Olympic USA (p)	9,602	n/a	Liquidated
14	Toll Brothers (p)	8,601	8,265	
15	Weyerhaeuser Real Estate Co. (p)	5,836	n/a	Sold
16	Habitat for Humanity International	5,820	4,334	
17	Shea Homes	5,755	3,839	
18	David Weekley Homes	5,360	4,687	
19	Morrison Homes (p)	4,347	n/a	Merged
20	Mercedes Homes	4,264	n/a	Liquidated
21	M/I Homes (p)	4,109	5,778	
22	Kimball Hill Homes	4,079	n/a	Liquidated
23	The Villages of Lake Sumter	3,963	1,866	
24	Pasquinelli Construction Co.	3,781	n/a	Liquidated
25	MHI	3,450	1,721	

Source: Builder Magazine, public filings, news reports

Fate of the Top 50 Builders in 2007 (continued)

The landscape of the top 50 builders has changed dramatically since 2007.

2007 RANK	COMPANY	2006 TOTAL CLOSINGS	2018 TOTAL CLOSINGS	Comments
26	Woodside Group	3,335	2,058	Bankruptcy, Sold
27	C.P. Morgan Communities	3,331	n/a	Liquidated
28	Holiday Builders	3,157	n/a	Out of Top 200
29	Drees Homes	3,154	1,971	
30	Perry Homes	3,141	2,615	
31	Highland Homes	2,951	3,074	Sold to ESOP
32	Taylor Woodrow Homes (p)	2,900	n/a	Merged
33	William Lyon Homes	2,887	4,186	Bankruptcy, IPO, Sold
34	Choice Homes	2,843	n/a	Liquidated
35	Epcon Communities	2,782	1,236	
36	Jim Walter Homes (p)	2,567	n/a	Liquidated
37	Ashton Woods Homes	2,471	4,057	
38	John Laing Homes	2,269	n/a	Liquidated
39	McCar Homes	2,265	n/a	Liquidated
40	WCI Communities (p)	2,215	n/a	Bankruptcy, IPO, Sold
41	Avatar Holdings (p)	2,122	n/a	PIPE, Sold
42	Orleans Homebuilders (p)	2,079	n/a	Bankruptcy, Sold
43	McBride & Son Enterprises	2,028	848	
44	Fieldstone Communities	1,900	n/a	Out of Top 200
45	American West Homebuilding Group	1,889	814	Bankruptcy
46	Royce Homes	1,837	n/a	Liquidated
47	Crosswinds Communities	1,750	n/a	Out of Top 200
48	Bowen Family Homes	1,728	n/a	Liquidated
49	First Texas Homes	1,691	1,306	
50	Levitt and Sons (p)	1,660	n/a	Liquidated

Source: Builder Magazine, public filings, news reports

Strategies for Success in the Current Crisis

There are many strategic alternatives available to homebuilders that are experiencing the impact of coronavirus. Defensive strategies are likely to be more appropriate for those deeply impacted by the virus, while offensive strategies may be prudent for those with stronger balance sheets or that have been less impacted by the virus.

DEFENSIVE STRATEGIES

Maximize Liquidity

- Draw down revolving credit facility
- Defer land acquisition and development
- Raise new junior capital
- Raise capital from existing investors
- Extend maturities of existing debt
- Sell land & lots
- Reduce headcount

Covenant Relief

- Pursue waivers for covenant violations
- Amend agreements

Deleverage

- Raise equity from new investors
- Rights offering from existing investors
- Convert debt to equity
- Sell land & lots or divisions

Strategic Mergers

- Merge with competitors to gain efficiencies of scale, rationalize expenses, etc.
- Merge with a peer with a stronger balance sheet, liquidity, and access to capital

OFFENSIVE STRATEGIES

Acquire Distressed Land and Lots

- Acquire land and lots from builders and developers (earlier in cycle)
- Acquire from banks (later in cycle)

Invest in Struggling Builders

- Invest to provide liquidity and / or deleverage the balance sheet
- Invest senior equity or debt to generate a sufficient return for the risk
- Invest in “fulcrum” to gain effective control

Acquire Builders

- Acquisition of stock or assets to consolidate market share or enter new markets
- Acquisition through a bankruptcy court (i.e. a Section 363 sale process)

Strategic Mergers

- Merge with competitors to gain efficiencies of scale, rationalize expenses, etc.
- Merge with or acquire competitors to gain market share and accelerate growth

KEENE ADVISORS

Founded in 2015, Keene Advisors has provided on-demand investment banking and consulting services to clients ranging from start-ups to Fortune 50 companies, private equity firms and family offices across North America, Europe and the Middle East.

The Keene Advisors team has advised clients on over 200 investment banking and consulting engagements over the last 18 years, including over \$40 billion in M&A, capital raising and restructuring transactions.

Our team can help you assess the impact of the coronavirus pandemic on your business and determine the optimal strategy to navigate successfully, positioning your business to thrive.

In recognition of our commitment to all our stakeholders — clients, employees, community — the nonprofit B Lab named Keene Advisors “*Best for the World*” in 2017, 2018 and 2019.



m&a

capital raising

turnaround

strategy consulting

Exceptional Advice

Keene Advisors offers on-demand advice and support to empower you to make important decisions with confidence. Trusted by Fortune 500 companies, leading private equity firms, and family- and founder-owned companies.

Senior Level Focus

Experienced senior level professionals to advise and execute on every step of your engagement. Leverage the expertise of our team, which has completed over 200 M&A, capital raising, turnaround and strategy engagements.

Flexible Solutions

Flexible engagements to conquer any challenge. We offer on-demand remote and on-site advisory services to clients, providing flexible solutions to supplement your in-house expertise, knowledge, experience and capacity.

Our Deep Homebuilding Industry Experience

Keene Advisors' team has advised public and privately homebuilders on a range of capital raising, restructuring, mergers and acquisitions and other strategic initiatives over the last 18 years. Throughout economic cycles, geographies and transactions, our team can help prepare you for success.

Our representative clients include:



Note: includes clients the Keene Advisors team has advised at prior firms.

Securities related services offered through Burch & Company, member FINRA / SIPC. Keene Advisors, Inc. and Burch & Company are not affiliated entities.

Our Advisory Team



Travis Borden

- Founder and President of Keene Advisors
- Over 18 years of investment banking and consulting experience
- Advised on over 160 engagements globally, including on M&A, capital raising, turnarounds, and strategic consulting assignments
- Previously part of the founding team at global investment bank Moelis & Company and an investment banker at UBS
- Previously board member at Wawa, a \$10+ billion convenience store chain
- Boston Business Journal 40-under-40

Michael Hobey

- Senior Advisor at Keene Advisors
- Over 20 years of corporate finance, operating and restructuring experience
- CFO of Elah Holdings, Inc., a holding company seeking to acquire a profitable platform company
- Previously CFO of Real Industry, Inc., Real Alloy and the Global Recycling & Specification Alloy business unit of Aleris
- Previously VP, Corporate Development and VP, Treasurer of Aleris
- Previously an investment banker at Citi



Sergio Reyes

- Partner at Keene Advisors
- Joined Keene Advisors at inception
- Advised on over 40 engagements globally including M&A, capital raising, turnaround capital raising, and strategic consulting assignments
- Previously Generation Citizen, Chapter Executive Director
- Master and Bachelor of Arts in Political Science from Boston University

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