

BUILDERPROFILE



DOUG BAUER *TRI Pointe Homes, Inc.*

Doug Bauer, 53, has been ceo of TRI Pointe Homes Inc. (Irvine, CA) since co-founding the company in 2009. Previously, he was with William Lyon Homes as pres./coo from 2006 and president of the Northern California division from 1998; he joined the company in 1989. Prior to then, he was with Security Pacific National Bank from 1982. For the six months ended June 30, TRI Pointe Homes had revenue of \$160.1 million, up from \$79.0 million. Operating income was \$18.9 million, up from \$3.6 million. Net income was \$10.4 million, up from \$2.3 million. Closings totaled 195, up 40.3%. New orders were 328, up 29.1%. Last month, TRI Pointe acquired Weyerhaeuser Real Estate Co. from Weyerhaeuser Co. for \$2.8 billion. In the following interview, Bauer discusses the WRECO deal and the outlook for business.

HBE: Describe today's TRI Pointe Homes, Inc.

DB: Acquiring WRECO has transformed us from a small-cap home builder that has built in California and Colorado to a mid-cap builder that is also building in Washington, Texas, Nevada, Arizona, Virginia, and Washington, D.C. It is a transformational transaction from a market capitalization, financial, and people perspective.

HBE: What have been the lessons learned from when TRI Pointe began discussions with Weyerhaeuser until the deal closed?

DB: The biggest lesson we learned was that Reverse Morris Trust transactions are very complicated and time-consuming. It was brought to my attention that since the tax code was enacted years ago, there have been only 28 Reverse Morris Trust deals. As we dealt with plenty of legal and accounting matters, patience was required.

The transaction was set up perfectly for TRI Pointe because we were the smaller company and WRECO was the larger one, and in order to effect a Reverse Morris Trust, the larger company needs to own more than 1% of the smaller company's stock to make it a tax-free transaction for the Weyerhaeuser shareholders. What happened was that Weyerhaeuser ended up owning about 80% of the company and our shareholders ended up with an estimated 20% stake.

HBE: What does WRECO bring to TRI Pointe?

DB: With this transaction, the name WRECO will be going away and we

have merged five home building companies into the TRI Pointe platform to give us six home building companies in the regions I mentioned. The merger provided us not only more than 27,000 lots in what we believe are some of the best long-term housing markets, but also some of the finest home building teams in each of the marketplaces we're serving.

TRI Pointe didn't have people in Houston, Phoenix, Seattle, and Washington, D.C.; we now have teams in all of those markets. Each of the home building companies will continue to operate under their respective, well-established brand names.

It is a significant transaction for the shareholders at TRI Pointe because we believe long-term that earnings contributed from the WRECO assets will exceed the TRI Pointe assets.

HBE: What are the key drivers behind the WRECO transaction?

DB: The transaction really has three key drivers. First, we gained control of more than 27,000 lots for a total of 31,000 lots, including 19,000 in land supply-constrained California. Second, these Weyerhaeuser companies are now part of a pure-play home builder. They will be focused on growing their businesses as builders versus being a subsidiary of a timber-focused company. Third, there are plenty of incremental opportunities to increase the bottom line, including mortgage, insurance, escrow, or national purchasing power.

HBE: What does TRI Pointe bring to WRECO?

DB: A seasoned management team that consists of myself, pres./coo Tom Mitchell, and cfo Mike Grubbs. We have worked together for 25 years and started TRI Pointe five years ago, so we have a ton of management experience in growing a home building company, and will apply that experience to managing this combined enterprise. In addition, we are bringing our existing assets in California to supplement the Pardee Homes assets, along with our relatively new assets in Colorado.

HBE: How much of your time was spent working on the deal?

DB: The majority of my time was devoted to closing the WRECO transaction. We completed the deal July 7 after working through the integration and transition of the WRECO companies. At the same time, in the first and second quarters, TRI Pointe still had to work on delivering strong operational results. Ultimately, the team successfully balanced the transaction with a focus on continued operational excellence.

HBE: Who else was involved in making this deal happen?

DB: The primary individuals besides me included our board of directors, management team, lawyers, and accountants.

HBE: Who headed the integration process?

DB: I led the integration, but there was a full team that was involved with more people than I can name. One of

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the beauties of a Reverse Morris Trust was that we announced the acquisition agreement on Nov. 3, 2013, and it closed eight months later. All of the integration and transition work is done, and all of the operations in Federal Way, WA, were transferred down to our headquarters in Irvine. There were 20-plus people in Federal Way, and only WRECO's HR and IT individuals made the trip south. The home building companies that are based in D.C., Houston, Phoenix, Seattle, and California already had their infrastructures in place.

HBE: Who are the presidents for the six building companies?

DB: The TRI Pointe Homes operation is broken into three divisions. Tom Mitchell is president of Southern California in addition to his role as pres./coo of the company, Jeff Frankel is president of Northern California, and Matt Osborn is president of Colorado.

John Lash and Tony Dolan are leading Pardee Homes in Southern California and Nevada; Ken Krivanec is president of Quadrant Homes in the Puget Sound region of Washington state; Andy Warren is president of Maracay Homes in Phoenix and Tucson, AZ; Will Holder is president of Trendmaker Homes in Houston; and Alan Shapiro is president of Winchester Homes in the metro Washington, D.C. area and Virginia.

Each home building company reports into Tom or myself.

HBE: What is TRI Pointe Homes' new competitive advantage?

DB: The amount of lots we now control and our larger scale are competitive advantages. In our core markets, we will continue to own and maintain a three- to four-year inventory of land.

Our strong balance sheet gives us the capital capacity to compete with other public companies.

Another advantage is a versatile product lineup. We are a family of build entry-level, first-time move-up, and executive level move-up homes, and that versatility enables us to source

new deals and maximize the value of our real estate.

HBE: What is the most important issue facing the business now?

DB: Key for us now is building and selling quality homes, offering excellent customer service, and ensuring high customer satisfaction from start of sale to closing.

HBE: How is the issue being addressed?

DB: The culture around here is all about finding the best land in the best locations, as well as finding the raw materials and transforming them into finished homes. We have to remember the most important party in the process is our customer. If we don't have happy customers, we won't have a good home building company.

HBE: How did the company perform in the first half ended June 30?

DB: It was an excellent period, driven by consecutive quarters in which we reported improved performance across almost all of our key metrics. Home sales more than doubled, and we posted double-digit growth in closings, orders, and backlog. The average sales price of a home in backlog was \$822,000, up 39.6%, driven by more move-up product in our communities versus a year ago.

HBE: What are the objectives for the balance of this year?

DB: First, we plan to increase our cycle time, which will result in growing home deliveries over the next several years, and focus on reducing our spending and being operationally efficient. Second, we expect to increase our deliveries and continue the land development activity that Pardee Homes has been very successful with in California, which we believe will generate increased cash flow and profit. Third, we will remain disciplined on land acquisitions and designing outstanding products while providing an excellent customer experience.

HBE: Where do you see the quickest growth coming from for the company?

DB: Houston, Colorado, California, Seattle, and even Las Vegas are contin-

uing to see strong sales and building activity. Washington, D.C., Virginia, and Phoenix are cooler markets.

HBE: Describe the vision for TRI Pointe Homes and how it will evolve.

DB: We will be larger, as we expect to grow new home deliveries for next year in excess of 25% over the combined deliveries we expect this year from legacy TRI Pointe Homes and WRECO; deliveries for 2014 should be 2,000-2,100 based on the guidance we offered earlier this month.

Our land acquisition strategy will also remain important, as we continue to seek real estate opportunities along major employment and transportation corridors in our markets.

HBE: How will the company differ from its past as it moves forward?

DB: As a top 10 home builder by equity market capitalization, we will focus on the home building companies that we just acquired and focus on being the most profitable builder. I tell everybody here that the goal is to be good stewards of our capital, and that means we need to be vigilant about managing our revenues and our costs.

HBE: What have been the most notable developments in home building this year?

DB: Outside of the TRI Pointe deal, one development would be Toll Brothers acquiring Shapell Industries' home building business. Then, William Lyon Homes recently agreed to buy Polygon in the Seattle market.

HBE: What is your view of William Lyon Homes' planned acquisition of Polygon?

DB: It is an excellent deal for them. Seattle, and the Pacific Northwest in general, are excellent markets.

HBE: What is the most important issue facing you now?

DB: I will remain focused on growing our six home building companies over the next several years. We will also fine-tune our operations as part of being good stewards of our capital, generating income for us and returns for our shareholders.