Centex Corporation (CTX)
“we’re building a whole new world”

By Saumil Dixit

Brief Overview

• Nation’s premier company in building and related services
• Established in 1950 in Dallas, Texas
• Nearly $8 billion company Fortune 500 company
• Fiscal 2000 net earnings were $282 million or $4.65/share
• Ranked Among the Top 10 U.S. Homebuilders Every Year Since 1968
• Divided into five operating segments
Home Building

- Centex Homes – company’s primary home building operation
  - Builds and sells homes serving about 80 markets in 23 states
- Other Home building operations
  - Fox & Jacobs Homes – “value”
  - Wayne Homes
  - Marquis Homes – resorts and second homes
  - City Homes – urban Dallas townhomes
  - Fairclough Homes – UK

Centex Homes

- Largest subsidiary of the corporation
- Markets and 2001 closings diverse geographically

<table>
<thead>
<tr>
<th>Region</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mountain States</td>
<td>6%</td>
</tr>
<tr>
<td>Midwest</td>
<td>16%</td>
</tr>
<tr>
<td>West Coast</td>
<td>17%</td>
</tr>
<tr>
<td>Mid-Atlantic</td>
<td>17%</td>
</tr>
<tr>
<td>Southeast</td>
<td>19%</td>
</tr>
<tr>
<td>South Central</td>
<td>25%</td>
</tr>
</tbody>
</table>
Food for thought.....

• Efficiency
  – Margins ~ 9.8% up from 8.8% in 2000
• Sales were up 14% from 2000
• Sales (orders) Backlog up 22% from 2000
  – Crucial for downside protection

Centex Construction Group

• Revenues by type of project

<table>
<thead>
<tr>
<th>Type of Project</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sports</td>
<td>1%</td>
</tr>
<tr>
<td>Retail</td>
<td>2%</td>
</tr>
<tr>
<td>Correctional</td>
<td>2%</td>
</tr>
<tr>
<td>Government</td>
<td>4%</td>
</tr>
<tr>
<td>Industrial/Manufacturing</td>
<td>4%</td>
</tr>
<tr>
<td>Transportation</td>
<td>6%</td>
</tr>
<tr>
<td>Office</td>
<td>14%</td>
</tr>
<tr>
<td>High-Tech</td>
<td>15%</td>
</tr>
<tr>
<td>Hospitality</td>
<td>16%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>16%</td>
</tr>
<tr>
<td>Education</td>
<td>20%</td>
</tr>
</tbody>
</table>
Construction Contracts

For the public need:
$300 M+ Opryland Hotel Texas
$192.5M Disney’s Pop Century Resort
$120M Vanderbilt University Children’s Hospital
$52.0M Dallas Police Headquarters Construction
$45.8M University of Central Florida Student Housing Village
$29.0M Dulles Airport Concourse
$24.0M Boca Raton Resort and Club Marina Wing

Centex Construction Group

• 46% higher backlog than 2000
  – Will help if there is slight industry downturn
• 80% of CCG’s current projects are for repeat customers
• Variety of services is a strength
Construction Products

- Manufactures, produces, sells, and distributes building materials
- For homes, commercial and industrial buildings, and infrastructure projects
- CXP is the nation's third largest U.S.-owned cement producer and fourth largest gypsum wallboard manufacturer
- 4 distinct product lines – have separate supply and demand
- High Margins, High Growth Potential!

Financial Services

- Provide home financing, home equity and sub-prime lending
- Sale of title and other types of insurance coverage
- Through 215 offices in 37 states, CTX originated 60,750 loans valued at $8.9 billion as applications rose 20%
- 4th Q profit 246% higher!
- Leverage Centex Homes base
- Sub-prime mortgage lending
Investment Real Estate Group

- Involved in the acquisition, development and sale of industrial, office, and retail projects
- Acquisition of Fairclough in UK
- Capitalize on alliances with sister companies
- Acquire strategically located sites and enhance value

Operating Earnings by segment

- Home Building: 66%
- Investment Real Estate: 17%
- Financial Services: 8%
- Construction Products: 5%
- Contracting and Construction Services: 3%
Industry Analysis

**Homebuilding Industry Analysis**

- Positive outlook after greater confidence about national security
- Low mortgage rates for now
- Signs of economic bottom
- Many players – few have nationwide presence
Competitors

• Lennar Corp
  – buying and selling of homes, mortgage financing
  – in 13 states but doesn’t have Centex’s reputation and size
• Pulte Homes
• D.R. Horton
  – incorporated in 1991, in 39 markets
• Clayton Homes

But CENTEX is the industry leader – highest market cap!

Competitive Advantage

• Quality of service
  – Highest accolades in industry
  – Home Team Services
• Diversity in many operating segments and strong balance sheet allows company to remain highly levered
• Synergies between alliances and subsidiaries
  – Can be a one-stop shop
• Growth opportunities and increasing margins
### Balance Sheet

<table>
<thead>
<tr>
<th>Assets</th>
<th>2001/03/31</th>
<th>2000/03/31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Cash Equivalents</td>
<td>$57,752,000</td>
<td>$135,853,000</td>
</tr>
<tr>
<td>Restricted Cash</td>
<td>$57,428,000</td>
<td>$3,710,000</td>
</tr>
<tr>
<td>Receivables - Residential Mortgage Loans</td>
<td>$1,996,746,000</td>
<td>$409,697,000</td>
</tr>
<tr>
<td>Trade, including Notes of $212,904,000</td>
<td>$206,519,000</td>
<td>$206,519,000</td>
</tr>
<tr>
<td>Inventories -</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Assets</td>
<td>$6,649,043,000</td>
<td>$3,987,903,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities and Stockholders Equity</th>
<th>2001/03/31</th>
<th>2000/03/31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable and Accrued Liabilities</td>
<td>$1,271,464,000</td>
<td>$1,125,807,000</td>
</tr>
<tr>
<td>Debt - Non-Financial Services</td>
<td>$1,464,993,000</td>
<td>$898,068,000</td>
</tr>
<tr>
<td>Financial Services</td>
<td>$2,054,898,000</td>
<td>$415,327,000</td>
</tr>
<tr>
<td>Payables to Affiliates</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Minority Stockholders' Interest</td>
<td>$143,624,000</td>
<td>$129,352,000</td>
</tr>
<tr>
<td>Total Liabilities and Stockholders Equity</td>
<td>$6,649,043,000</td>
<td>$3,987,903,000</td>
</tr>
</tbody>
</table>

### Income Statement

<table>
<thead>
<tr>
<th>Revenues</th>
<th>2001/03/31</th>
<th>2000/03/31</th>
<th>1999/03/31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Building</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conventional Homes</td>
<td>$4,356,172,000</td>
<td>$3,686,844,000</td>
<td>$2,819,442,000</td>
</tr>
<tr>
<td>Manufactured Homes</td>
<td>$126,366,000</td>
<td>$183,526,000</td>
<td>$178,556,000</td>
</tr>
<tr>
<td>Investment Real Estate</td>
<td>$33,042,000</td>
<td>$30,928,000</td>
<td>$33,694,000</td>
</tr>
<tr>
<td>Financial Services</td>
<td>$463,646,000</td>
<td>$430,611,000</td>
<td>$436,299,000</td>
</tr>
<tr>
<td>Construction Products</td>
<td>$441,127,000</td>
<td>$470,465,000</td>
<td>$381,899,000</td>
</tr>
<tr>
<td>Contracting and Construction Services</td>
<td>$1,290,382,000</td>
<td>$1,205,762,000</td>
<td>$1,350,776,000</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$6,710,735,000</td>
<td>$6,008,136,000</td>
<td>$5,200,666,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Costs and Expenses</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Building</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conventional Homes</td>
<td>$3,930,722,000</td>
<td>$3,363,624,000</td>
<td>$2,577,219,000</td>
</tr>
<tr>
<td>Manufactured Homes</td>
<td>$152,443,000</td>
<td>$175,183,000</td>
<td>$165,811,000</td>
</tr>
<tr>
<td>Investment Real Estate</td>
<td>($17,966,000)</td>
<td>($806,000)</td>
<td>$4,274,000</td>
</tr>
<tr>
<td>Financial Services</td>
<td>$443,979,000</td>
<td>$398,137,000</td>
<td>$343,990,000</td>
</tr>
<tr>
<td>Construction Products</td>
<td>$341,666,000</td>
<td>$301,854,000</td>
<td>$261,589,000</td>
</tr>
<tr>
<td>Contracting and Construction Services</td>
<td>$1,259,496,000</td>
<td>$1,182,291,000</td>
<td>$1,335,567,000</td>
</tr>
<tr>
<td>Total Costs and Expenses</td>
<td>$6,710,735,000</td>
<td>$6,008,136,000</td>
<td>$5,200,666,000</td>
</tr>
</tbody>
</table>

| Earnings Before Income Tax | $436,331,000 | $416,861,000 | $373,294,000 |
| Income Taxes | $154,354,000 | $159,729,000 | $141,332,000 |
| Net Earnings | $281,977,000 | $257,132,000 | $231,962,000 |
| Earnings Per Share Basic | 4.77 | 4.34 | 3.90 |
| Diluted | 4.65 | 4.22 | 3.75 |
A Note on PEG

- Price-earnings/growth
- Indicates how expensive the stock is based on its price, earnings, expected LT growth

<table>
<thead>
<tr>
<th></th>
<th>PEG</th>
<th>P/E</th>
<th>G</th>
</tr>
</thead>
<tbody>
<tr>
<td>CTX</td>
<td>.65</td>
<td>9.03</td>
<td>13.6%</td>
</tr>
<tr>
<td>Industry</td>
<td>.81</td>
<td>10.04</td>
<td>12.4%</td>
</tr>
<tr>
<td>Market</td>
<td>2.67</td>
<td>37.04</td>
<td>14.0%</td>
</tr>
</tbody>
</table>

In theory, the higher the ratio, the more expensive the stock!
Valuation

**CENTEX CORPORATION**

Discounted Cash Flow Analysis
Valuation: "Free Cash Flow to Firm"

- **Risk free rate**: 4.85%
- **Beta**: 1.21
- **Market premium**: 5.50%
- **Cost of equity**: 11.505%
- **Cost of debt**: 5.27% Aftertax cost of debt
- **% of Equity**: 48.30%
- **BV of Equity**: 3293.00
- **% of Debt**: 51.70%
- **BV of Debt**: 3519.89

**WACC**: 8.283%

**Growth rate (1-5)**: 13.80%

**Growth rate (6-10)**: 8.00%

**Terminal Growth Rate**: 5%

**Calculation of FCF (all in 000's)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Net Income</th>
<th>Add Depreciation</th>
<th>Less Change in NWC</th>
<th>Less CapEx</th>
<th>Add Interest Expense</th>
<th>FCF</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>281,977</td>
<td>40,509</td>
<td>201,176</td>
<td>52,442</td>
<td>66,376</td>
<td>135,244</td>
</tr>
<tr>
<td>2000</td>
<td>257,132</td>
<td>48,971</td>
<td>443,405</td>
<td>87,766</td>
<td>44,785</td>
<td>(180,283)</td>
</tr>
<tr>
<td>1999</td>
<td>231,962</td>
<td>36,172</td>
<td>62,047</td>
<td>52,453</td>
<td>27,859</td>
<td>181,493</td>
</tr>
</tbody>
</table>

**Terminal Value**

<table>
<thead>
<tr>
<th>Year</th>
<th>FCF</th>
<th>PV factor</th>
<th>Present Value of cash flows</th>
<th>Value of firm</th>
<th>Value of debt</th>
<th>Value of equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>135,244</td>
<td>0.924</td>
<td>142,135</td>
<td>7,120,532</td>
<td>3,519,891</td>
<td>3,600,641</td>
</tr>
<tr>
<td>2002</td>
<td>153,908</td>
<td>0.853</td>
<td>149,376</td>
<td>7,120,532</td>
<td>3,519,891</td>
<td>3,600,641</td>
</tr>
<tr>
<td>2003</td>
<td>175,147</td>
<td>0.788</td>
<td>156,987</td>
<td>7,120,532</td>
<td>3,519,891</td>
<td>3,600,641</td>
</tr>
<tr>
<td>2004</td>
<td>199,317</td>
<td>0.727</td>
<td>164,986</td>
<td>7,120,532</td>
<td>3,519,891</td>
<td>3,600,641</td>
</tr>
<tr>
<td>2005</td>
<td>226,823</td>
<td>0.672</td>
<td>173,392</td>
<td>7,120,532</td>
<td>3,519,891</td>
<td>3,600,641</td>
</tr>
<tr>
<td>2006</td>
<td>258,125</td>
<td>0.620</td>
<td>172,938</td>
<td>7,120,532</td>
<td>3,519,891</td>
<td>3,600,641</td>
</tr>
<tr>
<td>2007</td>
<td>278,775</td>
<td>0.573</td>
<td>172,486</td>
<td>7,120,532</td>
<td>3,519,891</td>
<td>3,600,641</td>
</tr>
<tr>
<td>2008</td>
<td>301,076</td>
<td>0.529</td>
<td>172,036</td>
<td>7,120,532</td>
<td>3,519,891</td>
<td>3,600,641</td>
</tr>
<tr>
<td>2009</td>
<td>325,163</td>
<td>0.489</td>
<td>171,586</td>
<td>7,120,532</td>
<td>3,519,891</td>
<td>3,600,641</td>
</tr>
<tr>
<td>2010</td>
<td>351,176</td>
<td>0.451</td>
<td>171,137</td>
<td>7,120,532</td>
<td>3,519,891</td>
<td>3,600,641</td>
</tr>
<tr>
<td>2011</td>
<td>379,270</td>
<td>0.451</td>
<td>171,137</td>
<td>7,120,532</td>
<td>3,519,891</td>
<td>3,600,641</td>
</tr>
</tbody>
</table>

**Recommenation**

BUY – stock is relatively undervalued

- Great growth opportunities
- Leader in industry
- Great brand name and service