



Cascade Investment Advisors, Inc.

Get to Know Your Stock: Cavco Industries

The year was 1965, and along with the rise of tie dye and lava lamps, a man residing in Phoenix, Arizona, Aldo Ghelfi, founded the progenitor for what would become Cavco Industries (NYSE: CVCO). But before it bore the familiar name synonymous with dependable and varied manufactured housing we know today, the company was originally run as an unincorporated association named Roadrunner Manufacturing Company, making truck campers and trailers. After the company's first few years in business, the name was changed to Cavalier Manufacturing. It added mobile homes in 1969 to its product lines, selling wholesale through Arizona-based dealerships, a strategy that would quickly become its primary focus. By 1973, management decided to discontinue making trailers and campers, focusing solely on custom-manufactured home production.

1974 was a pivotal year for Cavalier, when the founder, Mr. Ghelfi, retired, promoting his son, Alfred, who had been working for his father in numerous roles including vice president, secretary, and treasurer. To reflect a new position in its market, the company changed its name to Cavco. During the late 1970s, Cavco grew with the expanding mobile home industry, establishing a second manufacturing plant in Phoenix, poised to meet the demand of the rising backlog orders of double-wide homes in particular. In 1979, Cavco formed the Modular Housing Division, using a new brand name, Sun Built Homes, aimed at developing multi-section homes, designed for a permanent resident location. This move was one Cavco would execute several times - creating a new brand to fill a demand within a market.

Perseverance paid off as Cavco's sales rose from \$4.2 million in 1975 to an impressive \$20.4 million by 1979. However, the market posed bigger challenges for Cavco in the early 1980s, as a recession slowed the sales of prefabricated homes. Remaining nimble in a fraught market, Cavco introduced another new brand name, Progressive Homes, created to sell lower-priced models with increased advertising.

In the mid-80s, despite falling interest rates, still-high mortgage rates left the manufactured home industry struggling, causing Cavco to halt its plans to enter the Texas market temporarily and instead diversify its offerings. Despite challenges from a struggling manufactured home industry, Cavco's then-latest subsidiary, CVC Leasing, expanded to six Western states, and reported \$3.4 million in revenue, covering a fleet of over 400 units.

Early in 1996, Brent Ghelfi was named the new president and CEO of Cavco, replacing his father, Alfred, marking a third generation in the executive suite. In December of 1996, Centex, a large mortgage provider and homebuilder, acquired 80% of Cavco's outstanding stock, paying shareholders a hefty premium. With ownership changing hands as the manufactured homes market thrived, Cavco established two more manufacturing facilities and in 1998 acquired AAA Homes Inc., the largest manufactured home retailer in Arizona. However, by the turn of the new century, the challenges of a slowed economy and high interest rates would again test Cavco's flexibility.



Overall sales slowed to growth of only 3 percent, leaving Cavco to close two of four manufacturing facilities. Centex attempted damage control by forming Factory Liquidators, acquiring most of their inventory from failed dealerships, though sales would decline by a third for the next couple of years. By early 2003, Cavco was evaluated by Centex and was ultimately spun off, back to an independent company.

Today, the company has four facilities in three states, offices in 12 states, and countless retail partners; sales have reached nearly \$2 billion per year. The company owns brands including Fleetwood Homes, Palm Harbor Homes, and more; its business lines also include insurance and mortgage subsidiaries, Standard Casualty and CountryPlace Mortgage. Cavco's products have become ever more sophisticated while offering a viable alternative to very expensive stick-built homes.