



Kevin Clayton and Warren Buffett, meeting for the first time, following the acquisition of Clayton by Berkshire Hathaway.

BY SARA C. SHOEMAKER

GREAT Expectations

Kevin Clayton's stewardship gains plaudits from the Wizard

Try as he may, Kevin Clayton can't escape the spotlight. His name is associated with one of the state's most successful business stories. His father is Jim Clayton, founder and former president and CEO of the nation's manufactured housing leader, Clayton Homes. Kevin took over the company in 1999. Four years later, Clayton Homes sold to Berkshire Hathaway, joining mega-mogul Warren Buffett's smorgasbord of investments, for \$1.7 billion, or \$12.50 per share. The backstory of how that deal came about is already the stuff of business school legend. UT-Knoxville business students presented Buffett a copy of Clayton's 2002 autobiography, *First A Dream*, a gift that led to a billion-dollar buyout.

Through the years, virtually every move made by the elder Clayton has been well-documented, whose foray into manufactured housing began in 1965, and whose company has since become the nation's largest retailer, gobbling up competitors along the way. Never one to shy away from the spotlight, the guitar-picking songwriter likes to be center stage, while remaining tactful in giving credit where credit was due.

The younger Clayton has chose a different road when it comes to publicity—he rarely gives media interviews and seldom discusses himself without referencing “the team.”

“But don't mistake this for a lack of direction,” says Chris Nicely, Clayton Homes' vice president of marketing and spokesperson. “Kevin is a force, but like many great leaders, he has surrounded himself with equally great managers.”

That leadership, plus healthy financial backing from Daddy Buffett, boosted Clayton Homes' revenue to \$3.5 billion in 2006. The company continues to acquire well-known industry brands such as Fleetwood, LUV, Oakwood and Karsten, pushing Clayton's reach into 49 states. Its 14,000 employees nationwide account for a monthly payroll of \$42 million.

In a 2006 video interview Kevin Clayton granted to Robert Miles, author of *The Warren Buffett CEO*, Clayton talks about the \$7 billion Buffett has since invested in the company.

“My life is much more fun now—not to be begging for capital. We were needing over \$1.2 billion in capital for mortgages each year. And, not having the public company pressure has given us all more time to spend on the business,” Clayton says in the video posted on *businesspundit.com*.

This granted Clayton Homes the power to buy out mortgage debt, fix up foreclosed homes and resell them. Clayton's AAA credit rating “absolutely opens up doors,” he adds.

The company's vertically integrated approach provides its customers with the power to select a home lot, purchase a home, have it built and finance the entire cost through one of Clayton's two mortgage companies, Vanderbilt Mortgage & Finance and 21st Mortgage—servicing \$16 billion worth of financing for 330,000 families to date. The multiple revenue streams created by such vertical integration are timely, considering the industry last year recorded its lowest unit sales since 1962.

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Clayton's work has not gone unnoticed. For the third straight year, Buffett has singled out Kevin in his annual shareholders letter, calling him "the driving force behind the company's success." He refers to Clayton Homes as "an anomaly" in an ailing market.

"Kevin knows the business forward and backward, is a rational decision-maker and a joy to work with," Buffett writes. In a press release response, Clayton quickly deflects such praise onto "a team of great people focused on a common goal that allows us to achieve anything."

Clayton's conservative mindset has kept him focused on the selling of homes, an industry in which his company is continuing to evolve. This year marks the beginning of a revolution where Clayton will develop land and build subdivisions with manufactured homes that rival traditional homes. It's a bold venture that could forever wipe out use of the dreaded "t" word—trailer.

A new Clayton subdivision under construction in West Knox County will offer homes with top quality amenities and upgrades starting at around \$200,000. The consumer response has been positive.

"People are surprised that they're manufactured homes—that they're Clayton Homes," Nicely says. "It's not what they expected."

Doing what people do not expect and creating results is no doubt part of why Buffett has spoken so often and so highly of this Tennessee holding. Could such high regard mean elevation within the Berkshire Hathaway empire when the great and powerful Oz steps down? Clayton has certainly proved himself worthy, watching and learning from the triumphs and pitfalls of his father's corporate path. Nor is the younger Clayton's expertise only in manufactured homes. Although he grew up in the business, Clayton cut his teeth elsewhere.

With an MBA from UT-Knoxville in hand, he worked on Wall Street and with other companies before returning to the family business. Clayton began his Clayton Homes career in lower

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Father Hubbard

PHOTOS BY JONATHAN MULKEY

Roger Hubbard's status of a home-grown corporate hero will soon be solidified as his medical diagnostic testing firm, **Molecular Pathology Laboratory Network**, breaks ground as the first major tenant in the Pellissippi Research Centre, On the Oak Ridge Corridor—a business and technology park formed after a blurring of the lines among Knox and Blount counties, the City of Maryville and the City of Alcoa.

As a Maryville native and Alcoa High School graduate, it seemed natural for Hubbard to launch his little company in a 400-square-foot space inside Blount Memorial Hospital. Since 1989, he has

remained in Maryville although the rapid growth of his laboratory network forced multiple expansions, and today, the company's 116 employees are ready for another major move.

Hubbard, a guru of microbiology, immunology and health sciences, says the timing was right and jumped at the chance to custom-build a new facility. The lab will need about 75,000 square feet, and part of the current operations located in downtown Maryville will remain. In three-to-five years, Hubbard expects his workforce to double as well.

His commitment to his home turf extends out of the lab and into the

water. Hubbard founded the Smoky Mountain Rowing Club in 2004, providing a rowing center on nearby Fort Loudoun Lake. But simply satisfying his passion for rowing was not enough. Last year, Hubbard's club started the first female high school crew at Maryville High School. Thirty girls joined the team, but Hubbard's vision is for more young women to win college scholarships.

"Rowing is the fastest-growing collegiate sport for women and men," he says. "Because of this trend, we hope to prepare many of our [school] team members with the talent needed to earn a rowing scholarship in the future." **tn**

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Chunc of Change

One father's frustration leads to a new brand of adjustable wheelchair

A company like Specmat Technologies may not carry a household name, unless you're in the business of airborne and land communications and navigation devices.

Or you need a child's wheelchair.

The Chunc brand of adjustable wheelchairs for young people was born out of the vision of Specmat managing director Richard Smith (who also heads the Hereford, U.K.-based HR Smith Group of Companies that owns Specmat). The goal was to develop a more versatile, comfortable wheelchair for his daughter who is disabled by cerebral palsy. His passion has since swelled into a several new Chunc product lines, which come in a variety of cool fabric colors, assembled and serviced in Britain and Specmat's only other facility located in Blount County's small town of Rockford.

Smith didn't set out to be a leader in the home health services industry, but that's

exactly what Chunc has done. In February 2006, the company introduced three new designs, and through England and Tennessee offices, Specmat has developed a network of Chunc dealers worldwide including South Africa, New Zealand and India.

The privately held company provides little evidence on the financial impact of Chunc's success.

But, even if Chunc sales were producing astounding numbers, it wouldn't matter as much to Smith as his daughter's happiness.

"I am glad that my complaints to the old wheelchair manufacturers were ignored all those years ago," Smith writes. "Because it forced me to solve the problem of my daughter's mobility myself, and I know that I have done a very good job of it." **tn**



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Beyond expectations: Just as luxurious baths are helping to take manufactured homes beyond what consumers expect, so too has Kevin Clayton's leadership of the company his father founded kept it outperforming competitors and market trends.

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level management. "He's done almost every job in the company, even mortgage, running the factory, selling homes," Nicely says.

Buffett's entertaining shareholder's letter published in February alluded to three unnamed, would-be CEO candidates who could take the throne. The only clue: Each is several years younger than the 76-year-old tycoon. It has already been determined that Buffett's current role would be broken down into three positions – board chairman, CEO of operations and CEO of capital. Clayton may be in the running for the operations' gig.

Granted, most would agree the chance of Clayton's name being in the envelope is more what-if whimsy than likelihood. However, those well studied in Buffett-ology believe Clayton could have a fighting chance.

"Having interviewed some 20 Warren Buffett CEOs for [my book], I could see Kevin as a successor to Warren," Miles says. Miles says Clayton satisfies a laundry list of qualifications such as age (Clayton is 45), company loyalty, likability among managers and employees and, most importantly, personal wealth independent from Berkshire Hathaway ownership.

Yet, Clayton's competition, so to speak, could place him a distant third behind more Berkshire Hathaway-

tenured leaders including GEICO Insurance CEO Tony Nicely (the most likely heir, according to Miles) and David Sokol, CEO of MidAmerican Energy. "I have personally heard Warren say that Kevin is a 'dream to work with.' Buffett holds Kevin in very high regard. I think [he] deserves to be on Warren's short list," says Dr. Al Auxier, the UT-Knoxville finance professor who leads the annual Berkshire Hathaway student field trip.

When asked about a scenario where he got the chance to have a hand on the reins, Clayton provides a typically modest, understated response, albeit through his spokesperson.

"Kevin is flattered, but what he wants is what's always been implemented [at Clayton Homes]," Nicely says. "He would enjoy the position if given the opportunity."

Annual kudos from Buffett must be good for the corporate psyche, but all the succession speculation around Clayton could be much ado about nothing. Buffet has no immediate plans for retirement. "If he continues, I hope, for another 15 to 20 years, then the list of potential successors will change," Miles says.

Regardless if Clayton is called to the head of the table, this latest chapter continues to keep the Clayton family in the spotlight, and the legends alive. **tn**

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