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How McBride, Huttig survived the housing bust

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***Survivors**: Jon Vrabely and John Eilermann Jr. hung in there when the housing bust cut their companies in half. Now they're ready to rebuild.*

John Eilermann Jr., chairman and CEO of McBride & Son Cos., and Jon Vrabely, president and CEO of Huttig Building Products, were riding high on the housing bubble when they started to see signs that it might burst.

Both McBride, the region's largest homebuilder, and Huttig, one of the nation's largest wholesale distributors of millwork and specialty building products, began taking steps as early as 2006 for what they thought could be a downturn in the housing market. What they didn't foresee was the length or the depth of the unprecedented plummet that would cut each of their companies in half — both in terms of revenue and employees.

"We thought we were going to run a 10K and I think we ran an ultra-marathon," Eilermann said.

Eilermann and his leadership team first identified the possibility of a downturn during a March 13, 2006, advisory board meeting, when they realized that although the company had recorded a highly profitable year, it had also missed some budgets, and the margins were a little bit off.

"It was kind of schizophrenic because our business has such a long lead time that we were actually experiencing one of the most profitable times in our history, but yet we were still seeing some signs that concerned us," Eilermann said.

The housing market hit a peak of 2.1 million housing starts nationwide in 2005, but then quickly fell nearly 74 percent to bottom out at 550,000 in 2009.

McBride's revenue fell 68 percent between 2006 and 2012. The company cut its workforce by more than half, from 1,200 employees in 2006 to 470 in 2011.

At Huttig, revenue would plummet more than 50 percent from a high of $1.1 billion in 2006 to a low of $455.2 million in 2009. The company, which at one point was delisted from the New York Stock Exchange, would lay off about 1,300 employees and would report losses for all seven years between 2006 and 2012, with the biggest loss — $35.2 million — coming in 2008.

'Brutally tough' decisions

To survive, Vrabely and Eilermann both made some hard choices early on.

Vrabely was appointed CEO of Huttig Building Products in 2006. Within his first 90 days in the post, he decided to write off a project in which the company already had invested $13.5 million — the conversion of its ERP (enterprise resource planning) business management process to an Oracle system. The project, which was originally scheduled to take 18 to 24 months, was dragging on with no end in sight.

"So the very first thing I did was bite the bullet and turned back the hands of time and reversed that decision," Vrabely said. "That was a brutally tough decision to make within 90 days of being appointed CEO."

Vrabely's team then began to pull out of markets where Huttig didn't hold a dominant market share. Throughout the downturn, the company closed, consolidated or sold 20 distribution centers.

"If we were not the No. 1 or No. 2 market shareholder of the products that we sold in that trading area when housing starts were rapidly approaching 2.1 million on a national level, I just didn't see it possible that we would earn our way into that market position as the market started to decline," Vrabely said.

At McBride, one of the first issues the company had to face was the number of developed lots it held. "That's the value of your business," Eilermann said. "And in some cases those lots were worth 40 cents on the dollar, and you've got 40,000 of them."

McBride made the decision early on to sell its lots to other builders at lower prices to reduce that inventory. "We were so used to great margins, but when the market softened, we had to make the decision that we couldn't hold those margins," Eilermann said.

Dilip Vishwanat | SLBJ

McBride & Son's John Eilermann Jr. (left) and Huttig Building Products' Jon Vrabely made tough decisions to keep their balance sheets afloat during the depths of the recession.

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With the cash in hand from those sales, Eilermann was able to begin to look at what he calls "the blend," working his way through the higher priced inventory of lots the company had developed before the downturn while keeping an eye out for distressed lots now available at lower prices that would allow McBride to return to higher margins as the market recovered.

One of the first such projects McBride did was Bellemeade, a 250-home subdivision in St. Charles County where home prices start at $184,900. McBride bought the property out of foreclosure and was able to "deliver a heck of a value to the buyers," on a project that was very profitable for the company, Eilermann said.

McBride was able to do 40 similar projects by buying up distressed lots. "That's really what built our balance sheet back," Eilermann said.

Huttig similarly was looking for opportunities brought about by the downturn. The company looked for competitors that were pulling back, then would aggressively pursue their employees, product lines and market share.

For example, when one of Huttig's biggest competitors in the Pacific Northwest, Reeb Millwork Corp., pulled out of that market in 2012, Huttig hired about 15 of the company's former employees — from sales reps to truck drivers — and secured several Reeb product lines that Huttig didn't previously sell. The company has subsequently doubled its millwork business in the Pacific Northwest, Vrabely said.

Dry powder

The goal was not simply to survive, but to emerge ready for growth.

"It wasn't just an issue of we're going to survive, but we're going to survive in such a manner that when we come out of this, we will have ample liquidity, ample dry powder, to then reinvest in markets that are growing," Vrabely said.

Eilermann had a similar focus at McBride "We figured out we didn't just want to survive," he said. "We started using the word thrive pretty early on."

The similarities in their strategies are striking, according to Jim Snowden, executive vice president of **Huntleigh Securities Corp.** "They are each intensely competitive and determined to overcome shorter term challenges," Snowden said. "At the same time they have remained focused on their longer term objective, to emerge from the recession as the dominant company in their industry."

Not all of their competitors have been able to make it to what Eilermann now labels as the "thrive side" of the downturn. Mayer Homes, The Meyer Co. Inc., Levinson Homes, American Heritage Homes, Highland Homes, Taylor Morley Homes and Bower & Bailey are among the companies that previously ranked among the region's largest homebuilders and are now no longer in business.

It's a similar story in the building products and millwork industry. Case in point: North Pacific Group Inc., one of the nation's largest whole distributors of wood products, which was forced into receivership in 2010 after defaulting on $42 million in debt.

On the thrive side

McBride and Huttig have both started rebuilding as the housing market has slowly rebounded.

The "genuinely good news is that we are in the early stages of a real recovery in housing," Ed Leamer, forecast director at UCLA Anderson, said in a recent report, predicting that housing starts would climb back to a "normal" of 1.5 million by 2015.

In light of the recovery, McBride is investing $20 million in the new Grant's View development, being built on 67 acres of previously undeveloped land near Grant's Farm. "It's probably one of the biggest projects we've done by ourselves, and it took a significant amount of capital," Eilermann said.

McBride also has been rebuilding its work force. The company's last layoffs were in 2010, and Eilermann said the company now has 150 more people than it did at the bottom of the downturn. Eilermann expects the company's revenue for 2013 to hit $230 million and said the company's net profit margin is at its highest point in its history.

In the past 12 months, Huttig has added about 200 people nationwide, including some at its corporate headquarters in St. Louis where it now has about 65 full-time employees. The company's second-quarter profit jumped 62.5 percent to $2.6 million compared with last year's quarter. Sales rose 8.1 percent to $148.9 million compared with the second quarter of 2012, with increases in all product categories.

In the past few weeks, Huttig has announced it has been selected by CPG Building Products to be the distributor for the AZEK line of products, which includes trim, deck, porch rail and mouldings products, in six markets in the Northeast and Pennsylvania. Each new market involves about a $1 million investment in inventory. In addition, the company is investing in employees to grow the new product lines; Vrabely said he has approved an additional 12 to 15 employees at those locations just in the past week.

"It's a reinvestment process," he said. "But if we weren't in a position to do it from a liquidity perspective, we would be sitting on the sidelines watching these opportunities go to someone else."