

00:01 Opening: Broadcasting live from the 2018 RMA International Conference at the Aria Resort in Las Vegas, it's time now for a special episode of Capital Club Radio, broadcasting on the Pro Business Channel in across 16 syndication networks. This show made possible in part by Flock Specialty Finance. For more info, visit flockfinance.com. And now, here is your host, chairman and CEO of Flock Specialty Finance, Michael Flock.

00:34 Michael Flock: Thank you. And we are absolutely delighted today to have a really interesting guest. I'm pleased to introduce Tom Simonson, President and CEO of Merit Financial Solutions. As CEO, Tom is leveraging the people systems data and some of the infrastructure from the old CFS, Commercial Financial Services, a company founded by, as many of you know, the late Bill Bartmann, a very colorful, aggressive and controversial founder. Prior to Merit though, Tom headed up the Technology Consulting and Systems Integration Division at Unisys, with full P&L responsibility and \$1.7 billion in revenue. He developed his technical knowledge and skills as Executive Vice President of Mainline Information Systems, an IT solutions company. Before that, Tom spent 21 years at IBM in a variety of marketing and executive roles, including many on a global basis. Tom has a Bachelor of Science in Business from Drexel University. So, Tom, what motivated you to leave the world of hi-tech and prestigious brands like Unisys and IBM to join the former team and investors of CFS, a collection company, a debt-buying company, founded and led by a very, very controversial leader named Bill Bartmann?

02:00 Tom Simonson: Thank you, Michael, for the opportunity to be here. And I think the answer to your question is, when I met Bill and got to know what his vision and strategy was for the company. It really attracted me to helping people all over the country at the time. There's millions and millions of people, as you know, that suffer pretty significant financial stress. And while I enjoyed putting in high-end computer systems all over the world for over 20 years between IBM and Unisys, and my time in Mainline as well, I was really attracted to this motto of helping millions of people. And what Bill explained to me, in terms of his strategy and vision, included a lot of technology. So, we had some natural synergy between the business plan that he was creating and the use of technology. As an example, the Watson technology, all the analytical capability, all the predictive analysis and all that you could build from collecting all that data, and then mining it and monetizing it. It was really a well-matched partnership when I started with Bill.

03:11 MF: That's very interesting, Tom, because the way you describe Bill and his motivation is very different from how people remember him, because there were some ethical issues with the company, and I think his partner actually got arrested and did some jail time. So, it's surprising to hear the words that Bill wanted to help consumers in financial distress. Could you elaborate a little on that for our listeners?

03:38 TS: Yes, sure. I think there was always two sides to the Bill Bartmann story and the controversy around it. On the one hand, you had what you described, which was the scandal and the ultimate demise of CFS. But on the other hand, you had a man who was quite the visionary and could see things that others in the industry or in other industries did not see, particularly around how to create new offerings, how to go into new markets. A couple examples would be the focus he had on the whole subprime market and wanting to be the industry's leader in collecting data that you could market to banks and other organizations on the subprime market, a very difficult segment to be able to understand and do level of analytics. And that's what attracted me to this because I knew the technology component of what would achieve what he was trying to accomplish.

04:33 MF: I recall seeing his picture on the cover of Forbes magazine. I think it was a couple of decades ago, and it was, I think, something like a janitor, now a billionaire, Bill Bartmann. Do you think that maybe because he had some pretty humble beginnings himself that he identified with potentially these distressed consumers that he vowed to help? Is that part of his story, too?

04:57 TS: Absolutely. In fact, you really hit it right on the head. He actually grew up experiencing debt collection from the consumer standpoint. His dad was a janitor and they had a very difficult time making ends meet. And debt collectors, in those days, often visited the home. It was a regional or local collection model. And when you had an overdue bill, the debt collectors would show up at your house. So, Bill literally experienced this as a child growing up and had quite the adverse story. If you read his book and you learn his whole life story, it's actually a remarkable turnaround from his childhood. And then to your point about becoming a billionaire, he completely identified with those people, knew how to talk to them, and that's why his focus was on the kinder and more gentle debt collection approach, taking compassion and understanding into how he was trying to help consumers.

05:54 MF: How did that philosophy, that belief, translate itself into the culture that he created at CFS?

06:04 TS: Yes. I think it started with having the people first really believing in them, empowering them, appreciating them, respecting them. You might remember that, and he talks about that in his book, the levels of company recognition he had, he formed the daycare center with over 400 children, little toddlers, that were being taken care of at company expense by professionals in the child care industry. He created a school for preschool children that was in the hundreds of children. That scale, for the original CFS, they had nearly 4,000 people in one building, a 50-story tower. And you talk about stories, Bill used to go around and visit all the employees and he used to joke that he took him a year to visit with everybody because you go to one floor a week, and you have 50 floors. So, he always had a high interest in helping people and he put in those programs.

07:02 TS: And I think the last thing I'd say is, he created a recognition program where he literally took all the employees, their spouses and children, to Disneyland on an all-expense paid vacation based on the performance of the company. And it was featured in the Tulsa World newspaper where, at the Tulsa International Airport, there was four or five jumbo 747s lined up with all the employees of the company and they were going off to Disney. So, quite the customer experience.

07:32 MF: It's very ironic, yes, that someone in the collection industry, which is not necessarily associated with being employee-friendly or consumer-friendly, did the actual reverse.

07:45 MF: 400 children in a daycare center for the employees? That's awesome.

07:48 TS: Exactly. It is. It was a remarkable level of commitment to the employees, and his philosophy was, "If you take care of those employees and make it the most attractive place to work, you will get phenomenal results". And that's what he set out to achieve.

08:03 MF: All right. Well, let's talk about the future. We've talked about the past, but how did you personally... With your track record at IBM and Unisys and Mainline Information Systems, why would you be attracted to debt-buying and transforming a collection company?

08:24 TS: I wouldn't say that it was really attraction to this industry. What I was attracted to was all the experience I had built up over 30 years. I said, putting in high-end computer systems all over the world was great fun. It was literally a lifestyle. I was traveling the world extensively, visiting probably 15 to 18 countries, 35 to 40 cities every year, and enjoyed it immensely. And as a result, I have friends all over the world still from those roles. But what attracted me was more of what Bill was trying to accomplish in the way of reforming the debt collection industry, making it more friendly, making it less intense, less abusive, which is how some of the industry has morphed over the years, and helping all these people. And I could do it with the acumen that I had built up over all the years, and I could apply a lot of technology to it that he needed. So, when he approached me about all this, Bill said to me, "I will have the strategy, I want to build a company again like I had with CFS. I want it to be bigger, better, faster, and I want to have great analytic capability and a level of technology that didn't exist 20 years ago". And actually, I knew how to do all that. So, there was the synergy.

09:39 MF: Right. And I recall, when I visited you a few months ago, that you showed me that Bill's office is still there, everything, I guess, placed in his last visit and it's behind glass. But I got to thinking, and even now, are you somewhat a prisoner of his legacy? We're trying to talk about the future, but it comes back to the past. How do you, as the new CEO, go forward without being backward at the same time?

10:08 TS: Yes. It's a good question and a good thought, Michael. And I think what I would say is, I'm going to take the vision and the strategy that Bill had around helping people in the industry, applying the level of technology, creating compelling offers that really change people's lives. A couple of examples. In our enterprise now, we're going to have a debt collection company, we're going to have a debt negotiation and settlement company, and we're going to have a debt lending company. Now, as you know, based on regulatory requirements, you cannot have all those businesses in a single entity. So, we have three entities that are oriented towards helping the consumer in a full 360-degree fashion, so trying to address the entire consumer problem and solve it by utilizing these three companies.

10:57 MF: And so they'll all be in this so-called, I guess, consortium of Merit Financial Solutions?

11:02 TS: Exactly right.

11:03 MF: Okay.

11:03 TS: Yes, exactly right.

11:05 MF: Okay. So there are three companies. And you were just saying, a second ago, "we're going to have", but you've already started some of these, right?

11:11 MF: The debt settlement, that started?

11:11 TS: That's right. I have those three companies in existence today and we're performing in all three of those, I'll say, segments of the market. What I'm really speaking about is the scale of it. Now, we're going to really drive the execution of the plan and the scale of that model. And we have the plans underway, we're hiring people, and we're gearing up to drive that level of execution.

11:36 MF: Okay. So, elaborate, comment more on your vision, and what are the steps by which you're going to be accomplishing that? I guess, you need capital. You need people.

11:48 TS: That's right. That's right.

11:49 MF: You need system.

11:50 TS: That's right. To your point, and I'm in the process of building all those things, acquiring capital, being able to enable the company. I think among the first couple things we want to achieve is, first, having a large presence in the market, establish our self as a credible company that has morphed from the CFS2 into the Merit organization, and then from there really driving our results and our impact in the industry.

12:22 MF: And specifically, that means, I guess, lining up collection customers, that settlement consumers.

12:26 TS: Yes, that's right. That's right.

12:29 MF: And so, you're using some of the same people, right, from...

12:31 TS: Yes. Yes. In fact, we're going to have all the people that were in the previous CFS2 company, that Bill restarted in 2010, and ran until his unfortunate and sudden passing, which was near the end of 2016. So, for the past 14 months, our team has been working towards this approach with Merit, and we're going to have all the employees from CFS2 join, and we're going to take the best of the processes and the methods and the techniques and the software, and apply all that to the three companies, and go forward and scale and grow the business.

13:08 MF: Help us understand some of the obstacles. Everyone knows that things are much harder to achieve than usually our plans that we present seem to be. What are some of the examples of some of the challenges and obstacles you, taking this very fascinating legacy of CFS and the team and some of the relationships, I think, even from some of the investors, what are some of the obstacles you've encountered along the way?

13:34 TS: Yes. Listen, I love the question and I'm kind of smiling here, albeit on the radio.

13:41 TS: You can't see it.

13:42 MF: You've got a face for radio.

13:44 TS: Thank you, Michael, thank you.

13:45 TS: I've been told that before. The first thing I would say is I have worked hard to, in a few words, narrow the focus. Bill had a large orbit of people and contacts, and he was very focused on a lot of things around industry reform. He spent a lot of time in Washington, DC, meeting with regulators, consumer advocate groups, think tanks, the legislative bodies, all these different aspects. And what I've tried to do is really take the vision and the strategy and narrow it, reduce the orbit in terms of the size of it, the number of people in it, and really concentrate on the execution of what was that vision and strategy, but in a more narrow way.

14:37 TS: Moreover, I have set financial projections and other metrics that are kind of crawl, walk, run. So, you have got to start small. In baseball metaphor terms, you play small ball, get everybody on base, hit some singles and doubles, you can score lots of runs that way. And then after you get bigger and stronger, you can hit the long ball. It's that whole approach that was part of the challenge taking over from such a big personality, like Bill, to something that is quite more pragmatic.

15:14 MF: Right. Well, the other challenge, I think, that we all have had, and Bill did certainly before he died, was the market, the market, after the crash, shrunk, there was lots of consolidation, you guys still survived. Market is now starting to come back, but does Merit still have any of the prior issuer or creditor relationships for purposes of debt buying, or are you starting all over again? And how is that going?

15:41 TS: We have some of the relationships with the brokers and access to the level of inventory in the market. But, of course, I want to establish some new ones and some strategic partnerships where I can form a mutually beneficial ongoing relationship with those that can provide debt to buy or debt that I can service, and I'm pursuing those strategies. In fact, here at this conference, I have a number of meetings with some individuals that are interested in growing their business, establishing new partnerships, and that makes it mutually beneficial.

16:21 MF: Okay. Okay. Back to you personally, what did you learn at Unisys and IBM that you can apply now to this very different entrepreneurial experience?

16:38 TS: I think I learned the biggest thing. In fact, this is a little bit of a story that we were talking about earlier, that when I was operating those global businesses in the top, I'll say, 18 to 20 countries around the world, which generates 90% of the revenue in big IT companies, I learned that you need a precise strategy, that you need maniacal focus, and you need a certain level of cadence and discipline and a set of metrics. And when I used to travel the world and meet with all my teams, literally all over the world, at time to time, they would tease me and say, "Tom, every time you come to visit... " Which was about twice a quarter to most places, they would say, "You say the same thing, you repeat yourself". To which I used to say, "That's called consistency". [chuckle] And they used to tease me about it because they always wanted something new. To which I said, "No. The key to success is having a very select set of offerings and really providing great organizational capability and enablement around it, which includes funding, and people, and training, and marketing programs, and technical support, and all the aspects that you need, and then driving that operational rigor".

17:57 TS: And I used to tease them right back and say, "Listen, I'm going to be back six weeks from now and three months from now. And guess what? We're going to talk about the exact same things that are typed on this one page. So, I'm never going to ask you about the microwave oven business. I'm never going to ask you about the steam shovel business. I'm going to talk about the hardware, the software and the services business with these offerings, these solutions and these markets. So, six weeks from now, get ready, and I hope were a lot bigger and stronger". And that was where I applied my focus.

18:28 MF: Of course, though, in big companies, I can relate to that, you never... You wake up in the middle of the night worrying about where that paycheck is coming from, because they've got size, infrastructure, cash. They're already successful. But now, you're in such a different position. Do you

have sleepless nights? Do you wake up wondering where the next paycheck might be coming from for Tom Simonson?

18:50 TS: I actually do, because when you're building the business and you're making the level of transformation that we are, you do rely on investors up front and you have to learn to raise money as part of your everyday operating, mode of operation. And it's interesting that you mentioned what you just said, because you're right, when I was in IBM and I was at Unisys, I never thought about paychecks. We had a huge treasury and lots of capability there. When you're in a small company and you're trying to build the brand and build the company and the infrastructure, you do worry about that. The good news is, I had a lot of good experience working with investors and working in the capital markets and figuring out how to approach and create value propositions, and mutually beneficial win-win solutions. And then I trade on my personal credibility, and my character, and my integrity that I developed over all those years in IBM and at Unisys, in particular. And people judge you on that, and they decide that they have confidence and they're willing to invest. And that's how we've operated.

19:57 MF: You just used the word "brand". In our first part of this interview, we talked about systems, people and capital. We didn't talk about brand, and you've got a bit of a challenge here.

20:08 TS: I do.

20:09 MF: Because of the CFS history and some of the past business practices. How are you going to build a new brand for Merit Financial Solutions?

20:18 TS: I think it starts with just literally planning the work and working the plan. And I'm not trying to create a cliché, but I live by that motto, that it's an everyday effort. You show up at work every day, you put forth your best effort to accomplish your objectives, you do what you say you're going to do, and you incrementally build that reputation. You get connected to more people. It's a small world, as we all know, particularly in the industry like this level of financial services. And you trade all your reputation, and you trade on your integrity, and did you say what you were going to do is actually what you did. And I think that's how we go about it, that's what we've been doing for 14 months, and that's the plan going forward.

21:00 MF: Okay. And going forward, what will be your definition of success for Merit in 2018?

21:07 TS: Yes. So, first, I think it's really a function of acquiring portfolios. I probably have three parts to this. Part number one will be, we need to acquire portfolios, drive the top line, work the whole P&L, and come out at the end of the month with the profit. Second, I think we need to build relationships within the industry. And that's across the brokers, the banks, forming some important partnerships for today and in the future, really establishing ourselves as a credible corporation that is based and grounded in good integrity and good character. And then the third thing is delivering on the financial results. And that's a function of what we promise our investors, what we promise our employees and we promise to ourselves. So, I think if we could do those three things, in 2018, we'll be well positioned for more growth in 2019 and beyond.

21:57 MF: And before we wrap it up, Tom, I always like to ask our guests, what do you do in your spare time? What are you reading now? What book is on your bedside table?

22:08 TS: I try and read a lot of different things. I'm a political junkie, at some level. I won't give you the names of the books, but I will tell you I'm reading some of the most current publications in the political arena that described the state of politics in our country, centered in Washington and centered around a couple of individuals. That's probably the things I enjoy reading the most, in addition to sports. I love college football and track and read a lot about that as often as I can. I love Major League Baseball, and track, and read a lot about that as well.

22:44 MF: Well, since you're from Philadelphia, I'm assuming you like that Super Bowl?

[laughter]

22:48 TS: I did like that Super Bowl. They've never won a national championship in the history of the franchise, so it was really great to see the Eagles perform the way they did.

22:57 MF: Philadelphia came from behind, they were not expected to win.

23:01 TS: That's right, all the season. And losing Carson Wentz was not trivial either. So, the way Nick Foles stepped up, not only in the playoff games, but certainly in the Super Bowl, was just remarkable for he and his family.

23:13 MF: So, I wonder, is their parallel here? [chuckle] With the Philadelphia Eagles coming from behind and here we have the new CEO of Merit building on a very colorful company and very colorful founder from the past coming like the phoenix rising from the ashes.

23:31 TS: Yes. Listen, I think it takes a lot to take on that level of adversity.

23:37 MF: Right.

23:38 TS: And over all the years, I've been fortunate enough to have adversity, but also come through it. And the old expression, "What does not kill you makes you stronger", literally applies.

23:49 TS: So, it's been a good long time and I'm looking forward to more of it.

23:54 MF: If I could summarize then, so what you're suggesting is maybe it's the adversity of the past, of CFS that's going to help make Merit maybe a Super Bowl winner in the future.

24:06 TS: Yes. There's a level of determination and resolve there among all the employees and the executives we have, and there's a culture of wanting to make a big contribution in the industry, help a lot of people, but also drive great financial results in an outcome that you can be proud of. And I think you're right, Michael, that's a large part of it.

24:23 MF: Well, do you have any final words of wisdom for our listeners, Tom?

24:29 TS: I don't think I have any words of wisdom. I would just tell you I think we all find ourselves in opportunities or companies, as the case may be, and there were times where I ask myself, "How did I get here? Why am I here?" To your point, here I am in these large IT corporations, operating global businesses...

24:48 MF: Wide collections, yes.

24:49 TS: And how did I get into this place, at this time? And my own view is, there's a plan that's beyond what we create for ourselves. There's the big guy in the sky that creates things for us, and we are in a place that's a part of that, and I accept that and embrace it. Actually, I'm looking forward to the future.

25:14 MF: Well, Tom, thanks for this very fascinating conversation about the legacy of Bill Bartmann that you're building on, from CFS to Merit Financial Solutions. And we look forward to reading how Merit will win the Super Bowl some day in the debt buying and collection industry. Thank you very much, Tom.

25:33 TS: You're welcome. Thank you for having me, Michael.

25:37 Closing: We want to thank you for listening to this special episode of Capital Club Radio, with your host, Michael Flock, and his guest, live from the 2018 RMA International Conference at the Aria Resort in Las Vegas, made possible in part by Flock Specialty Finance, more than a transaction. For more info, visit flockfinance.com. To listen to a re-broadcast and more episodes, visit capitalclubradio.com.