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Larry Pearson Interview on Capital Club Radio

00:04 Announcer: Broadcasting live from the Pro Business Channel Studios in Atlanta, Georgia. It's time for Capital Club Radio, brought to you by Flock Specialty Finance. Please welcome your host, Chairman and CEO, Michael Flock.

00:20 Michael Flock: Thank you, and good morning. Today, we've got the distinct privilege of speaking with Larry Pearson, President and CEO of Independent Dealers Advantage, or IDA. It's a subprime auto finance company that purchases and services point of sale subprime indirect auto paper in the southeast United States. Larry founded the company in January 2001 to purchase, underwrite, verify, and collect point of sale and bulk subprime indirect auto paper. Managing the growth of IDA's portfolio to \$20 million and outside servicing portfolios to 90 million, consisting collectively of 11,200 accounts. IDA purchases and underwrites 500 accounts per month. And Larry is recognized as a leader and authority in this subprime auto segment.

01:12 MF: Prior to his achievements in the subprime auto industry, Larry spent nearly 30 years in the insurance and health care services industry, buying, building, operating and selling a variety of health care service companies in ophthalmology sectors. He's had quite a wide variety of entrepreneurial experiences. Prior to all that, Larry earned a BS in Industrial Management at Georgia Tech in 1970, and he's a phenomenal and a rabid Yellow Jackets fan. I think a few of his stories about the Yellow Jackets... And I'd like to also have him comment on this incredible trailer that he's created for his family of fans. But let's start first... I guess, let's talk about Georgia Tech first, and understand what was it about your Georgia Tech experience that had an influence on your future career. And you're so passionate about it. Was there something special about that culture that really resonated with you, Larry, when you were there?

02:10 Larry Pearson: Yes, Tech is a very special place anyway. For me, they really taught me how to think analytical and to think about things from a different perspective. And so, that's the main takeaway from my years there.

02:25 MF: That's where you got your analytical base, you're saying, that served you so well in both healthcare and subprime auto.

02:32 LP: Correct.

02:33 MF: How did you go from industrial engineering, to insurance, and then to healthcare? Was it strictly intellectual, the analytical aspect of it, or was it more serendipity and opportunistic?

02:46 LP: After I graduated from school... or actually, while I was in school, for both high school and college, I worked at Blue Cross Blue Shield in the summers. So that was my part time job. Except for one year, when I turned 15, my dad taught me a very valuable lesson. He worked in a cotton mill for 50 years. We grew up in a very low middle class, I would say, family, and we didn't have a whole lot. So he had me go to work one summer in the spinning room, cleaning lights in the cotton mill, and it was about 130 degrees, and you were up over the spinning frames, and it was just miserable. And it was all summer long, day in, day out. And he said, "Okay, you can have a career. You can spend the rest of your life doing this type of work or you can decide to aggressively pursue your education." And it was a very valuable lesson.

03:48 MF: And so, then you got into Blue Cross, I guess?

03:52 LP: When I was at Blue Cross, I worked for a particular guy that I thought was a very good manager. So, I went back to Blue Cross, they recruited me back, and I started out in the underwriting department, and then ended up managing the medical review department and worked for a particular guy. I wanted management experience. So, once I graduated from Tech, I realized I had a lot of other skills, but I didn't really understand how to manage people. And so, I went back there specifically to work for a particular individual that I thought was a terrific manager. And I stayed there for three years. And then I decided to go back toward my education and went to work for Summerour and Associates in Atlanta, for a textile and apparel consulting firm.

04:41 MF: But this man who was your mentor, what were some of the lessons then that he taught you about management?

04:46 LP: How to deal with people, he was very forthright. You always knew exactly where you stood, and he was always very direct in terms of... You knew what he expected of you and what you were supposed to do and the timeframe to do it in and the expected result. And he had a big personality, that did hurt him as well, but it was just a very valuable experience. I've learned over years that there's an awful lot of different approaches to management, and there are people who... Not very kind to people, and they just simply look at it from an expectation of work. And then there are other people who try to have a deeper understanding of the person that's working for them, and to get involved in, at least, caring about what's going on with that individual. And those are the things that I picked up on that has helped me so much. I think about it as it relates to the healthcare business or IDA, either one. The example that you said as the manager, in terms of your attitude about how you're approaching the business and do you have a vision that you can relate to them? That they can understand? And then, can you express and show that you care about them on a personal level? And it's those types of things that he was very good at and helped me along a lot.

06:16 MF: So, it's connecting that vision to a plan and to actions and then, I guess, spreading that shared culture or values to the team that you're developing to build these businesses?

06:28 LP: Correct.

06:30 MF: What was the first experience that you directly had a chance to use some of those skills?

06:37 LP: I've been an entrepreneur... Once I left Blue Cross. Really in the... At Summerour and Associates, even though you work for another entity, the way they work was you would go to... Whether it was an apparel plant or a hospital or wherever. In this case, we started out in the apparel business, and you would do a survey of a plant and set objectives that if they bought your work, then you had to go back and implement, make all the changes and achieve the results. And that was very, very valuable experience. And just in how to deal with people then because you're going into a plant, you have no authority over anyone there. So, you have to approach it from a very different perspective. You're making suggestions to them. You've got to convince them that you can help them do their job better. That you can make their job easier to do by reengineering their workstations, and those types of things. So, it was applicable almost immediately in my career.

07:44 MF: When you look at Larry's resume, you can see that there were so many different

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experiences that you had in buying and selling companies which involved the integration of different companies, different cultures. So, I can imagine that was a wonderful melting pot to try to make these things work, because so often people forget that M&A deals fail afterwards if there isn't that leadership, plus the engineering of processes that tie the two companies into a new company as well. And sometimes in business school, we all focus on the engineering and the financial aspects, the technical things, without touching upon the softer personal things, which, frankly, you know you are known for having a family type culture at IDA, and I suspect that then was something that paid off in many of the deals that you achieved in your years in the healthcare industry.

08:39 LP: I learned very early that I wasn't the smartest guy. I could outwork my way back to a level that I could achieve on the same level with those that were a lot smarter than I was. You combine the work ethic with, then, the personal skills to be able to create a vision and create a culture. You at least have the opportunity. I've always tried to do things a little different. When we were buying hospitals, for example, Hospital Corporation of America was just getting started, and whether they should or whether you could own a public hospital, because all the hospitals were public at that time. And when we got into the business, we decided that we wanted to do something a little different. And so, we partnered with doctors. And there was some Medicare fraud and abuse issues that you had to work around, but we figured out a way to do that, and had partnerships with physicians in those hospitals, and it caused us to be successful in every case but one. I've always just tried to approach the business, whether it was the ophthalmology business where we built ophthalmology practices, but we built it very differently than working with a physician.

09:50 LP: We would put together a large network, optometrists, who could refer all their surgical cases into that one practice. So instead of a surgeon who's just starting, doing 40 or 50 cataracts a year, in the first year of work, he would do 500. So, it was a different way to approach building a practice, is the way we looked at it, and it was very successful. And we built 16 practices around the country in 18 months, and they all did more than 500 cataracts in the very first year. Today they're some of the largest practices around the country and those cities still, doing two or three thousand cataracts a year.

10:32 MF: Did you have any obstacles along the way? I mean, it sounds like a great success story, but certainly starting your own business, it never goes exactly the way you think. Do you have some examples you can share with our listeners where your leadership model was challenged? Didn't work initially?

10:47 LP: Entrepreneurs would tell you they make every mistake you can possibly make along the way, and you just have to recognize your mistakes for what they are and learn from them and go on. And not let it become a failure. For example, our second hospital that we bought, we did the same thing that we did in the first one. We bought a hospital, the first one was down in New Orleans, and it turned out... With a group of doctors, and it turned out to be very, very successful. They filled the hospital up, and always very busy, and we made good money, and it was very successful. We go to Houston to do exactly the same thing. We recruit a group of docs, they're investors in the hospital with us, and the first six months, everything's great. And then all of a sudden, our census in the hospital drops in half, and we bank with Citibank in New York, and all of a sudden, we have a technical default in one of our covenants, even though our company, we're strong enough, we could make the payments for that hospital. Had a financial covenant violation, or a default. And I spent the worst six months of my life fighting with Citibank...

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12:02 MF: Because they were going to call the note?

12:05 LP: Yes. They did, but there was nothing they could do. And what happened was that group of doctors went and invested in another hospital, a few miles away from us as well. So they thought they could split their patient base, and that would just... They could make that work, and they couldn't.

12:19 MF: They couldn't?

12:21 LP: At least it didn't work for us, it may have worked for them. But it certainly didn't work for us, and so we ended up having to sell that hospital. And it took us about six months or so to do that, and it was just a miserable six months with the banks hounding you every single day.

12:38 MF: So, did you lose money on that deal?

12:39 LP: We did, but that's just part of it.

12:40 MF: And so, the lesson learned from that experience was?

12:44 LP: You better really know your...

12:46 MF: Your due diligence on your...

12:47 LP: On your doctor partners.

12:49 MF: On your doctor partners. And maybe built in some guard rails around that.

12:52 LP: Absolutely.

12:55 MF: So, let's shift up. Subprime auto, Larry. Because you're the first entrepreneur I've met that's been so successful in a completely different vertical, and also equally or even maybe more successful... And the story is not over yet, obviously, in subprime auto. How did you jump from healthcare to auto?

13:11 LP: Let me back up a minute. And before we do that, let me comment about... I built three different ophthalmology companies. The first was the referral center concept, and that was different. The second one was very early in the physician practice management era. And we were buying physician practices. And what you would do is you would buy half of their income streams, what we were doing. And most all of the physician practice management companies were doing exactly the same thing. In our case, it was ophthalmology, so we would go to an ophthalmologist, and maybe he was interested in retiring in two or three more years or maybe not. Maybe, he just wanted us to help him grow, so he was willing to sell us 50% of his income, sell us his practice, so he could retain 50% of what he generated. And then we got the other 50%, and we took over all the expenses of the operation. We grew that, and eventually, sold it. We ended up with about 40, 45 practices or so all over the country. The third, I tried to do a different type of model because the 50% was too much, is what we learned.

14:22 LP: And eventually, the physician practice management model failed for that very reason.

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But I was early in, early out, so it was worked out fine. We sold the company and made good money off of it. But then the third try at that was to do a franchise type model and focus more on the ambulatory surgery centers and the laser vision correction facilities that would surround the hospital, and ancillary services to that ophthalmology practice. We moved to New York. We worked with a group of doctors up there. They had a network of doctors already in place. And we developed the Ambulatory Surgery Center, and we tried to develop that model. And we developed the Laser Vision Correction Center that we opened and did 700 cases the first couple of months that we were open. So, it was very successful, but the model didn't work, so that's when I decided to just get away from ophthalmology, and started looking for something else to do. And ended up in the subprime auto space.

15:25 MF: And so, that leap to subprime model. Had you studied the market beforehand, or was it an opportunity that just fell on your lap?

15:33 LP: No. We had invested in both a small finance company in the auto space, as well as backed up an individual in a car lot. So, we had some knowledge, how the industry operated, and then we brokered on the finance company side of it, we brokered loans. And actually, my wife worked both of those while I was still in the ophthalmology business.

15:56 MF: I see.

15:58 LP: So, we sold the last ophthalmology company, then I decided to take some time off. And I started thinking about what I wanted to do, so I set a set of criteria. So, I said, "Okay, no travel. I want to have one office. I don't want to be scattered all over the country. I want to have a business that I can scale to a certain size." And I wanted to be able to do a family business, and I wanted to be able to go home at night, and my phone not ring.

[chuckle]

16:26 LP: If you're in the acquisition side...

16:28 MF: Right. It always rings. I've been there, yeah.

16:30 LP: It always rings is exactly right. And particularly if you're working out on the West Coast.

16:36 MF: Yes. No, these transactions are critical to the owners that you're serving. That's their whole net worth.

16:41 LP: So anyway, I ended up doing a floor plan business plan for a friend of mine.

16:47 MF: In the Buy Here Pay Here?

16:48 LP: Yes, in the car business. I finished that. And as I was working through that, I realized there was a need on the finance side, and I liked the finance side better. So, I developed another business model, and it started out very small. And it's interesting what happened. We had moved to Florida, and we're living at the beach. And our middle daughter was pregnant with twins and had a two-year-old. And she called and said, "You've got to come help. I can't pick up my two-year-old." She was huge, so we moved, came back to Atlanta, moved in with them for about three months, and

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stayed...

17:25 MF: But you were still operating your finance...

17:28 LP: No, no, no. We were...

17:29 MF: Did you put it on hold?

17:30 LP: No, no, no. No, we were just... I was just planning.

17:31 MF: This is in between? Okay.

17:33 LP: Yes, at that time.

17:33 MF: But you said your wife was laying the ground work also at the same time?

17:37 LP: She actually opened a car lot in Snellville in Georgia. And we ended up selling that to our oldest son.

17:46 MF: So, fast forward now to IDA, what is your vision now going forward for IDA? And what were some of the lessons you learned along the way that have helped you form this vision, and make IDA what it is today? Which is, again, one of the leading subprime indirect lenders in the Southeast?

18:06 LP: Well, we're pretty small, but today, we have about \$35 million that we have ownership in, and then we have another \$15 to \$20 million that we currently service for outside companies or joint venture partners. I want to grow that side of the business, the servicing side, and particularly on the bulk side, we do both. We do point of sale, and we buy in bulk. On the point of sale side, the last couple years on the deep subprime paper, it has been a very difficult environment. A lot of the subprime companies have gone out of business. There's been some consolidation and elimination of what's going on. '16 was slightly better, '17 was a little better in terms of the way the market is reacting. We saw defaults go up across the board, across the industry.

19:01 MF: So, this is the bubble that everyone's talking about?

19:02 LP: Yes, yes.

19:03 MF: Now sometimes bubbles can be opportunities, though, right?

19:05 LP: Yes.

19:06 MF: They're not all bad, necessarily.

19:08 LP: No. So, what? It was a double whammy due to the fact that at the same time defaults were up, then the value of used cars was going down. We saw from that '15 to '17, probably a 20% decline in the value of used cars. You get a car back, you take it to the market, through to the auction, and it brings way less than...

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19:33 MF: It's huge financial pressure. On everybody. Including the lenders. And buyers now.

19:39 LP: But now, we've changed what we are buying on the point of sale side, and we've moved up the credit scale a little bit. And our original intent was try to help this deep subprime customer. We wanted them to be customers with us one time. They typically have a problem as a result of some life-changing event, and their credit gets hit. And now they struggle to get things financed, and automobiles is no exception. You try to help them, if they'll make their car payment for 18 months on time, their credit score will go up about 150 points, assuming everything else in their credit stays the same.

20:18 MF: So, you're rehabilitating them.

20:20 LP: So, you're going through a rehabilitation process, yes.

20:24 MF: That's interesting. You're really doing something good for society, while at the same time, it makes sense economically for IDA as well. So, you've aligned something that's very good for the world, while at the same time, serving your investors and yourself well.

20:38 LP: That is correct. Helping people is very important to me, my faith is very important. Therefore, I feel like I'm challenged to help people, and this was one of the ways that we could do it. And frequently, we will have conversations with customers to make sure they have a good understanding of what they're getting into, and what they need to do to help themselves so that they only stay in this space for a little while, and then they can move up the credit chain.

21:07 MF: The auto bubble between '15 and '17 was certainly challenging for everyone in the industry, but compared to 9/11 and the crash of 2008, how did you get through those crises at IDA? Because you started, I think, IDA in about 2000, and then we had 9/11 in 2001, and then crash in '08. How did you deal with those very difficult circumstances?

21:32 LP: Typically, history has shown that the deep subprime space outperforms the rest of the market in those types of times where...

21:40 MF: That's interesting. Because you'd think the contrary normally, wouldn't you?

21:44 LP: Yes, we got through '08 without any issue whatsoever, until we had a bank go bad. I mean, go under on us, talk about adversity. One of the major issues that we've had at IDA was in '09, we had a bank that we owed six million dollars to tell us they would not renew our loan. We had 90 days to pay them off, and that is highly stressful...

22:08 MF: You had a few sleepless nights?

22:10 LP: Yes, and that creates a lot of problems.

22:12 MF: How'd you get out of that, by the way?

22:14 LP: We ended up having enough loans that we could sell enough, and we had a relationship with Crescent Bank...

22:19 MF: In New Orleans?

22:19 LP: Down in New Orleans. We were servicing for them, selling loans to them, and servicing for them, so they helped us, and they just stepped up and bought enough to make it work for us, and we were able to pay the bank off. We had to cut back, we were buying 450 loans a month at the time, and we went down to buying 70 in one month. It was very dramatic, cut our staff in half. But then it was a rebuilding process. We learned a lot through that, but it wasn't customer related. This was just purely related on the bank side.

22:54 MF: And did you have a prior relationship with Crescent, or was it something that you...

22:58 LP: No, we had been doing business with them for a couple of years. Yes. So, we did have a good relationship with them.

23:05 MF: And so that helped you get out of another relationship, which was troubled. Again, relationships seem to be another common denominator here in your career, and both opportunities and challenges.

23:16 LP: Yes, I think that's true, and pretty much across the board with everybody.

23:20 MF: Right. Larry, what are you reading these days? What books are on your night stand?

23:23 LP: Recently, I spent a lot of time in the Bible. I'm up to Corinthians, and I like some of the commentaries, so I read the Bible, and then I go and I like John MacArthur. So, I'll get his commentary on the books, and read those, and I try to do that some every day. I'm also trying to read Flynn's books, the Mitch Rapp series.

23:49 MF: Do you have a favorite passage in Corinthians that you're reading right now?

23:52 LP: I think Corinthians 13 is talking about the gifts has given us. So, trying to discern what your spiritual gift is, and then how you can apply that, and what God wants you to do with it.

24:06 MF: Well, what's really interesting, and sometimes people kid me because, as you know, our company funds companies that buy debt, so we're in, obviously, the same space, and people say, "Well, you're not really doing God's work." But I think you've started to draw a connection here between what you do at Buy Here Pay Here... Very few people would associate Buy Here Pay Here with the Bible. On the other hand, you've uncovered an opportunity with helping consumers rehabilitate their credit, which is a wonderful thing. And at the same time, you've been able to capitalize on the intersection of rehabilitating consumers that have bad credit with doing something good for your shareholders as well and creating a business in IDA that is successful for you, its employees as well, and making a difference in the market. So, I have a feeling, I'm going to tell my friend that tells me, "You're not doing God's work," "Well, you haven't met Larry Pearson yet. Larry Pearson has the unique experience of using his spiritual gifts in his business, and I think that's a wonderful thing." Larry, do you have any final words of wisdom for our listeners here today?

25:20 LP: For young people, I think exposure. They start their career. Do as many different either management styles or just different ways to do things, is very important to help to get them going in the right direction and help them understand. Sometimes it just seems overwhelming, and it's really

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not. And just try to find a good mentor, and that would be my advice. And I've been very blessed.

25:43 MF: And you've become a mentor yourself, it sounds like, to some of the people that you've been working with at your own company.

25:50 LP: I try, yes.

25:51 MF: And then, of course, the other mentor you have is your spiritual mentor in the Bible, and it's very uplifting. On that note. I'd just like to thank you, Larry, for your time this morning. Sharing some very fascinating lessons learned, both in healthcare, subprime auto. You've been a, obviously, very successful entrepreneur and engineer of multiple companies, and we look forward to the next chapter, both your spiritual life and your business life, because I don't think we've heard the end yet of what IDA is becoming, and what it will be in the subprime auto industry. So, we look forward to the next chapter in that story as well.

26:30 LP: Michael, thank you very much. I've enjoyed it and I appreciate very much you giving me the opportunity.

26:33 MF: Thank you so much, Larry.

26:36 Announcer: Thank you for joining Michael Flock and his guests on the Capital Club Radio Show. For more information on future interviews, please visit us at flockfinance.com. This program is brought to you by Flock Specialty Finance, where clients are provided knowledge and insights to help them grow their business in complex and risky markets. Flock is more than a transaction.

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