What to make of Ron Carson selling 29% of his empire for $35 million -- and how he's evolved his no-pain, no-gain approach to attract a new generation of talent

7/12/16 Originally Published Natalie Carpenter, RIABiz

Ron Carson has raised $35 million in exchange for 29% of the holdings in his three Omaha, Neb.-based companies.

The 51 year old is pocketing some of the cash as part of the sale of his stake in Carson Group Holdings but the lion's share of the take floated in an offering led by Long Ridge Equity Partners of New York will go to fuel an ambitious plan.

"[Ron] did not go into this with the idea of taking pieces off the table." Aaron Schaben, managing partner, Carson Institutional Alliance and Carson Group Holdings.

But Carson intends to make himself into less of an integral piece of the puzzle.

Carson knows his companies have thrived upon — and have been limited by — how much they are all about him and his reservoir of charisma and sheer voltage. Carson Wealth Management Group LLC is the original firm, the one that Carson's built up to become LPL Financial's top producer. It's a hybrid RIA of about $2 billion of AUM housed largely at LPL and comprised of ultrahigh- net-worth clients with $10 million or more.

His second startup, PEAK Advisor Alliance, founded in 1993, is Ron Carson's attempt at franchising himself. He has done so by creating a program whereby independent broker-dealer reps come to Omaha to hear him deliver motivational speeches and to receive training. Before raising the $35 million by selling 29% of Carson Holdings, Carson attempted to sell PEAK but was unable to come to terms with buyers.

It is by means of the third act, Carson Institutional Alliance, founded in 2012, that Ron Carson plans to ride to transcendence – professionally and personally — something that even tough critics can see.

"Even my wife has noticed the difference," he says.

Pipeline prospects

What outside observers can see clearly is that Carson Institutional — nearly inextricable from its forerunners now — in its first four years grew to 37 partner firms in 44 locations across the United States, and that its AUM reliably grows 100% annually — the kinds of results that make private equity investors' ears perk up. Together, Carson's three companies have combined advised assets of $6.5 billion, an amount Carson declines to break out among the divisions.

The M&A valuation rule of thumb for TAMPs is $20 million for every $1 billion for AUM, which makes Carson's $6.5 billion worth $130 million, which seem in keeping with the $35 million paid by investors, according to Daniel Seivert, CEO of ECHELON Group of Manhattan Beach, Calif. He adds that there may have been an aspect of the tail wagging the dog in how the Long Ridge deal was structured given that Carson initially shopped PEAK without success.

Carson attributes the triple-digit growth rate to PEAK clients who are now entrusting their business to Carson as outsourcer rather than taking his advice and translating it into growth themselves. Carson says the current pipeline of advisors who may join Carson Institutional oversee some $15 billion of assets under management. Regarding the power of this division of Carson Group, Ron boasts of a $15 billion high-quality pipeline. Carson vouches for the veracity of these prospects: "If they aren't warm, they aren't included in that number."

For these three businesses, he uses three custodians: TD Ameritrade, LPL and Fidelity Clearing & Custody, both based in Jersey City, N.J.

Asked by reporters whether Carson Institutional might hit total AUA $12 billion next year based on that pipeline, Carson flatly said it would not. He declined to project a closing rate related to the pipeline.

That pipeline is nuanced. Advisors can either use Carson's firm as an outsourcer, like a down-market Dynasty Financial Partners, or join as part of a roll-up. "Expect to see the acquisition of two firms in the next 90 to 120 days," Carson says.

New audience

Carson doesn't believe his firm has an easy comparable and has even invented a new category — turnkey integrated partnership platform — to capture what he does and to challenge Orwell's ugliest wording agglomerations. "No one has ever done this before," says Carson.

Shirl Penney, CEO of Dynasty, declined to discuss details of Carson Institutional, twice citing his friendship with Carson. Still, he allowed: "It's a completely different audience." Dynasty typically seeks RIAs with $1 billion or more of assets managed and Carson seeks smaller IBD reps who need scale.

Dynasty outsources its investments — relying on Callan Associates Inc. of San Francisco to research money managers — but also provides most of the support associated with a roll-up including transition support, compliance help, marketing oversight and practice management.

Carson also offers those services but has plans to do much, if not all, of the asset management in-house. He says he is in touch with a number of managers about acquiring their firms — a plan that seems to take a page out of the book of Marty Bicknell, CEO at Mariner Holdings over in Leawood, Kan.

Tempting young talent

What Carson hopes to solve is the bane of the small, under-scaled advisor — shrinking profit margins. The fees that Carson charges, as per the company's ADV fee schedules, are many in variety and not paltry including asset management fees at Carson Wealth that range as high as 2.5%, "subadvisory" up to 1% and fee up to 2% sub-advising variable annuity and life contracts. Carson Wealth also lists hourly fees of $500 not to surpass $25,000. There are also consultation fees for retirement fees up to 1.8% and retirement plan services up to 1%.

But with fees under withering pressure, Carson is also tackling expenses and efficiency head on — looking to make executive hires to oversee all three companies as one and to weave them into one enterprise.

To that end, he has a hiring program in place with Cecile Munoz, CEO of U.S. Executive Search and Consulting of Los Angeles, to secure a corporate chief financial officer and chief investment technology officer. "Ron is always on the tip of his toes and never on the back of his heels." says Munoz, who has worked with Carson for 15 years.

Munoz points to a candidate for one of these posts of chief technology innovation officer — a person of 25 years— as evidence that Carson is ready to embrace the next generation of leadership. He wants the "most innovative mind" he can find, she says. Munoz allows that her challenge is much steeper because Carson demands that this talent be based in Omaha.

The quest to create a Silicon Valley culture in Omaha will seek to capitalize on the state itself, which has emerged as something of a hub for RIA activity in recent years. But one with limitations. For the snowboard junkie, it's four hours to Vail with one stop. You can still drop $1.5 million on a fat condo in the Old Market area. You'd want your sanctuary to be cozy given that on average it snows six months out of the year in Omaha and the summer months can feel like living in bowl of soup. The male-to-female ratio is about evenly split with the average median resident age of 34.2. The population demographic is 68% pure white bread. Omaha boasts zero five-star hotels.

From a business standpoint, it makes sense to keep Carson operations based in a low-cost region, and the shrinking-margins trend dictates a tight ship.

'Ask for forgiveness'

A corporate culture shift is already taking hold — starting with the man at the top. Carson says self-reflection has moved him toward a more modern ethos, one guided by a desire to empower those around him and encourage them to take the initiative, a philosophy encapsulated by the motto: "Don't ask for permission. Ask for forgiveness." His tweets reveal many activities, as per photos in this article, with his younger staffers and reflective activities like hiking or communing with a pack of dogs.

"I was such a taskmaster. My vision of the world is so different from what it was," he says. "Part of that is from growing up on a farm. I was scared to lose what I had."

Yet Carson's self-effacement won't extend to name and branding of his companies. His proposed management talent acquisitions will be indentured to Omaha for at least the first three years. As for the ultimate letting go, Carson's succession plan retains an air of mystery.

As Carson describes it, the name of a successor is written down on paper. That person's name, however, is undisclosed and that person is not bound to take the reins were something to happen to Carson.

But Carson assures that experience has taught him to delegate more and hover less.

"The more I stepped back to better," he says. "I even shocked myself."

The next $35 million

Seivert says Carson has likely gained a good sense of the importance of capital for a growing enterprise.

After spending $20 million over the past three years to build CIA, with headcount going from 40 to 100, it is no surprise that Carson has discovered firsthand how costly growing a business can be.

Previously Carson always bootstrapped his operations — a habit that proved easy to break. "I was actually surprised at how easy the money was to spend," Carson adds.

How will Carson buy the purported $15 billion RIA/IBD pipeline, as well as all the others in the cross hairs, with a $35 million cash infusion?

He plans to raise another round of capital soon enough — something well within his grasp.

"He still owns 71% of the company. He is still nimble," says Munoz.

Got a great deal

But going forward, Carson will have to engage in the balancing act of maintaining control of the Carson Group vision while fully leveraging the strength of his business.

Long Ridge Equity Partners et al "got a great deal" with their $35 million purchase of 29% of Carson Group, says Eric Clarke, president of Orion Advisor Services LLC, a proprietary software company that specializes in TAMPS and provides services for CWM and CIA.

Long Ridge invested $15 million earlier this year in San Rafael, Calif.-based EQIS, another TAMP for IBDs.

"Ron is one of the hardest working individuals I know. His energy transfers directly into his business success," says Clarke of his Omaha colleague.

But more and more often there is also a method to the Carson madness.

Says Schaben: "This whole thing was a process. There was an evolution to it. Overall, we were looking for the best strategic growth partner."