

*A Conversation with James “Rad” Weaver*

## Texas Retains Competitive Advantage Despite Oil Price Softness

*Rad Weaver, 42, has been chief executive officer of McCombs Partners, the investment arm of McCombs Enterprises, since 2006. He oversees investment strategies, including direct investments in private businesses encompassing a variety of industries, including oil and gas. He also serves as chair of the San Antonio Chamber of Commerce and as a director of the San Antonio Branch of the Federal Reserve Bank of Dallas. He was recently appointed to the University of Texas System Board of Regents.*

### **Q. What is the ‘Texas advantage’? Why does Texas grow faster than most other states?**

It comes down to attitude. We have many structural advantages—a business-friendly environment due to tort reform, abundant low-cost electricity, a strong labor supply—but Texas also has a unique brand that distinguishes it from other states. There is a culture in Texas of hard work and pulling yourself up by the bootstraps. I believe that the aura of Texas has become enhanced as we have weathered economic storms. For example, the past two years of low oil and gas prices caused many energy states to decline, yet Texas continued to grow. We have a mindset of limited government and economic freedom that fosters risk taking; this attitude and brand define the culture.

### **Q. What are the biggest areas of opportunity and the risks currently present in the state’s business environment?**

In the 10 years in my current role, there has never been a more difficult time to see what is coming. There is great expectation for tax reform, and the feeling on the whole is that business regulation will continue to be rolled back. This improved business climate will put lenders in a better position

to take on new loans. There have also been many innovations, and new company formation seems to be gaining momentum.

That said, it feels overall as though assets are near full valuation, so I am a bit nervous about how much room we have to grow. Near term, we may see some damping in activity if, for instance, we get another downturn in oil. Also, interest rates and the cost of capital have been very low for a long time. Going forward, this will start to tighten, so reliance on financing will diminish and more equity will be needed for deals to go through.

### **Q. Most people associate Red McCombs with auto sales. What are some key trends impacting the auto industry?**

We still see the car business as a barometer of future expectations. Vehicles today last longer, which has changed the dynamics of the industry somewhat. Most people, no matter what they are driving, are thinking about driving something better than the car they have today. If you are feeling better about what is happening in the next six to 12 months, you are much more likely to make that upgrade.

I don’t know that auto purchases will be as strong of a leading indicator

going forward. Autos have become more utilitarian rather than the status symbol they once were. There has been something of a generational shift in demand from cars to electronics, and aftermarket upgrades in particular are a much harder sell now than they used to be.

### **Q. What are the key sources of the recent optimism in the oil and gas sector? Is it justified?**

The main source of optimism is the innovation in Texas that has led to better-producing wells at less cost. I guess you can say that necessity is the mother of innovation. With low energy prices over the past two years, service providers and well operators have been forced to become more efficient. This has led to an increase in the rig count in Texas since the middle of last year, while the rig count has fallen internationally.

While oil prices remain low relative to the period of 2011 to mid-2014, the stability of prices above \$44 per barrel since May 2016 has allowed producers to plan better and feel more confident that prices will not fall sharply. When you add to this a commitment by OPEC to lower production, I would say that the optimism is justified.

### **Q. As a newly named member of the University of Texas System Board of Regents, what do you see as the biggest gaps in the state educational system?**

The higher education system in Texas is very large, and I am learning all I can about it. The financial underpinnings of the system and how they relate to students, in particular, are areas that I am catching up on as fast as I can.

As an employer, I sense a real need for technical skills in the job market that will only become more in demand as time goes on. Universities in the state need to focus on filling that demand.

One of the key challenges is to improve the four-year graduation rate. The population in Texas is growing quickly, and we need to be able to provide the throughput for new students to come in and stay on track to graduate. A big part of increasing the rankings of our universities is also making sure our



▶ *“Never stagnate—do different things in different cycles and constantly change your portfolio by selling things with less potential and buying things with more potential.”*

students finish their degree programs on time. Also, for our size, Texas is behind other states in how many tier 1 research universities we have, and that is something we need to improve.

Part of the solution to this lies in school finance—many students need to work in order to afford to pay for college, so they take fewer credit hours per semester. Students only need 12 hours to be considered full-time, but that pace doesn’t lead to on-time graduation. We need to improve accessibility and affordability in the UT system so that students can focus on school work.

I also think that we can do better at providing support mechanisms on campus. This can take many different forms, whether it be allowing credits to more easily transfer across the system or having more student mentorship programs. These kinds of initiatives aren’t proliferated across the system as much as they should be.

Some of this comes from personal experience—were it not for scholarships, I wouldn’t have been able to afford to go to UT–Austin. We need to make sure that we provide the best possible product that we can for our kids and making college as accessible and affordable as we can without sacrificing educational excellence.

The challenges are as complex as they are important, but I think we have the opportunity and the potential to have the greatest public university system in the country.

#### **Q. What key lessons did you learn from working with a Texas business legend like Red McCombs?**

You have to get up every day and be better than yesterday. Continuous

training and development is essential for all employees. Never stagnate—do different things in different cycles and constantly change your portfolio by selling things with less potential and buying things with more potential. When I was 18, I was profoundly affected by the analogy of life being like a baseball in flight. You are the ball; you are always either moving up or moving down. There is no status quo, every moment of every day you are either making yourself better off or worse off.

In 50 years, McCombs Partners has never missed or been late on any debt payments. Cash flow is king. If you expect to win, you prepare differently than if you just want to win.

Red has a tremendous work ethic—he works six days a week and loves it. Even today [at age 89], Red takes the time to send about 20 handwritten notes every week to thank people for working hard or for doing business with him. His work ethic and attitude carry down to all the employees. Red also realizes that when business is good, it becomes easy to slack off. So that is a time when there needs to be particular focus on working hard.

#### **Q. How did you become CEO of McCombs Partners at a young age?**

I have been working with Red McCombs for 24 years. I started washing cars for him as a senior in high school, and he would sit with me for about an hour each day mentoring me on college and social life, and the importance of developing contacts and relationships. After attaining a degree in finance from UT, I worked at Red’s ranch and car dealerships for a short

while and then served a year as a sales associate for the Minnesota Vikings [football team], which Red owned at the time.

While working as an investment analyst for McCombs Partners from 2000 to 2006, I helped establish an online presence for the car dealership. Along the way, I learned many lessons from Red, such as how to evaluate a business proposition and write a one-page summary—any longer meant that the deal was too complex or too incomplete to undertake. I also learned the importance of doing what you say you will do. The opportunity that Red gave me was a ticket to a game that I didn’t know existed.