
# Focus Financial Partners

***Raymond James 40th Annual Institutional Investors Conference***

March 6, 2019

# Disclaimer

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**Special Note Regarding Forward-Looking Statements**

Some of the information in this presentation may contain forward-looking statements. Forward-looking statements give our current expectations, contain projections of results of operations or of financial condition, or forecasts of future events. Words such as "may," "assume," "forecast," "position," "predict," "strategy," "expect," "intend," "plan," "estimate," "anticipate," "believe," "project," "budget," "potential," "continue," "will" and similar expressions are used to identify forward-looking statements. They can be affected by assumptions used or by known or unknown risks or uncertainties. Consequently, no forward-looking statements can be guaranteed. When considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this presentation. Actual results may vary materially. You are cautioned not to place undue reliance on any forward-looking statements. You should also understand that it is not possible to predict or identify all such factors and should not consider the following list to be a complete statement of all potential risks and uncertainties. Factors that could cause our actual results to differ materially from the results contemplated by such forward-looking statements include fluctuations in wealth management fees, regulatory assets under management, our reliance on our partner firms and the principals who manage their businesses, our ability to make successful acquisitions, unknown liabilities of or poor performance by acquired businesses, harm to our reputation, our inability to facilitate smooth succession planning at our partner firms, our inability to compete, our reliance on key personnel, our inability to attract, develop and retain talented wealth management professionals, our inability to retain clients following an acquisition, write down of goodwill and other intangible assets, our failure to maintain and properly safeguard an adequate technology infrastructure, cyber-attacks, our inability to recover from business continuity problems, inadequate insurance coverage, the termination of management agreements by management companies, our inability to generate sufficient cash to service all of our indebtedness, the failure of our partner firms to comply with applicable U.S. and non-U.S. regulatory requirements, legal proceedings and governmental inquiries and certain other factors. All forward-looking statements are expressly qualified in their entirety by the foregoing cautionary statements. Our forward-looking statements speak only as of the date of this presentation or as of the date as of which they are made. Except as required by applicable law, including federal securities laws, we do not intend to update or revise any forward-looking statements.

**Non-GAAP Financial Measures**

We analyze our performance using Adjusted Net Income and Adjusted Net Income Per Share. Adjusted Net Income and Adjusted Net Income Per Share are non-GAAP measures. We define Adjusted Net Income as net income (loss) excluding income tax expense (benefit), amortization of debt financing costs, intangible amortization and impairments, if any, non-cash equity compensation expense, non-cash changes in fair value of estimated contingent consideration, gain on sale of investment, loss on extinguishment of borrowings, delayed offering cost expense, management contract buyout, if any, and other one-time transaction expenses. The calculation of Adjusted Net Income also includes adjustments to reflect (i) a pro forma 27% income tax rate assuming all earnings of Focus LLC were recognized by Focus Inc. and no earnings were attributable to non-controlling interests and (ii) tax adjustments from intangible asset related income tax benefits from acquisitions based on a pro forma 27% tax rate. The calculation of Adjusted Net Income Per Share is calculated by dividing Adjusted Net Income by the Adjusted Shares Outstanding. See calculation of Adjusted Shares Outstanding in the fourth quarter and full year 2018 earnings release.

We believe that Adjusted Net Income and Adjusted Net Income Per Share, viewed in addition to and not in lieu of, our reported GAAP results, provide additional useful information to investors regarding our performance and overall results of operations for various reasons, including the following:

Non-cash equity grants made to employees or non-employees at a certain price and point in time do not necessarily reflect how our business is performing at any particular time; stock-based compensation expense is not a key measure of our operating performance; contingent consideration or earn outs can vary substantially from company to company and depending upon each company's growth metrics and accounting assumption methods; the non-cash changes in fair value of estimated contingent consideration is not considered a key measure in comparing our operating performance; and amortization expenses can vary substantially from company to company and from period to period depending upon each company's financing and accounting methods, the fair value and average expected life of acquired intangible assets and the method by which assets were acquired; the amortization of intangible assets obtained in acquisitions are not considered a key measure in comparing our operating performance.

Adjusted Net Income and Adjusted Net Income Per Share do not purport to be an alternative to net income (loss) or cash flows from operating activities. The terms Adjusted Net Income and Adjusted Net Income Per Share are not defined under GAAP, and Adjusted Net Income and Adjusted Net Income Per Share are not a measure of net income (loss), operating income or any other performance or liquidity measure derived in accordance with GAAP. Therefore, Adjusted Net Income and Adjusted Net Income Per Share have limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

Adjusted Net Income and Adjusted Net Income Per Share do not reflect all cash expenditures, future requirements for capital expenditures or contractual commitments; Adjusted Net Income and Adjusted Net Income Per Share do not reflect changes in, or cash requirements for, working capital needs; and other companies in the financial services industry may calculate Adjusted Net Income and Adjusted Net Income Per Share differently than we do, limiting its usefulness as a comparative measure.

In addition, Adjusted Net Income and Adjusted Net Income Per Share can differ significantly from company to company depending on strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. We compensate for these limitations by relying also on the GAAP results and use Adjusted Net Income and Adjusted Net Income Per Share as supplemental information.

# Who We Are

FOCUS® FINANCIAL PARTNERS

- ✓ A leading partnership of 59 independent fiduciary wealth management firms[1]
- ✓ A partner of choice for Registered Investment Advisors (''RIAs''), a highly fragmented but rapidly consolidating industry
- ✓ A source of intellectual and financial resources, and a scaled business model that ensures aligned interests

**Our partnership is built on the following principles, which enable us to attract and retain high-quality wealth management firms and accelerate their growth**

| | |
|---|---|
| Entrepreneurship | ▸ Emphasis on the entrepreneurial spirit, independence and unique culture of each partner firm. |
| Fiduciary Standard | ▸ Partnership with wealth management firms that are held to the fiduciary standard in serving their clients. |
| Alignment of Interests | ▸ Alignment of principals' interests with the interests of Focus through our differentiated partnership and economic model. |
| Value-Add Program | ▸ Empowerment of our partner firms through access to strategy, intellectual resources, M&A opportunities, low-cost capital, marketing and operational best practices. |

1. Represents the number of partner firms closed as of March 1, 2019. The number of partner firms has been reduced for those that merged with existing partner firms prior to March 1, 2019.

# The Challenges We Solve

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| 1. Enhance Already Successful Businesses | 2. Provide Access to Cost-Efficient Capital | 3. Facilitate Succession Planning |
|---|---|---|
| ▸ Sharing of best practices – "Economies of Expertise"<br>▸ Process and technology enhancements<br>▸ Regulatory support<br>▸ Purchasing power<br>▸ Partner level M&A | ▸ Limited lending from banking institutions<br>▸ Most firms too small for private equity<br>▸ Bank acquisitions counter-cultural for RIAs | ▸ Fair market value for transitioning advisors<br>▸ Talent recruiting and management<br>▸ Succession planning processes |

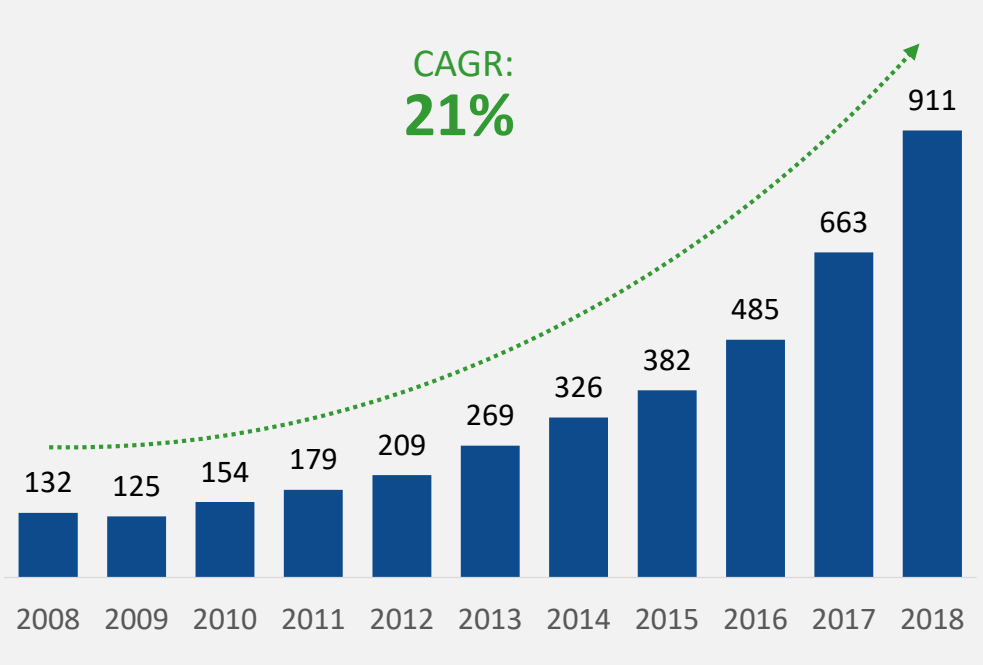
**Focus Never Turns Entrepreneurs Into Employees**

# A Partner of Choice in a Growth Industry

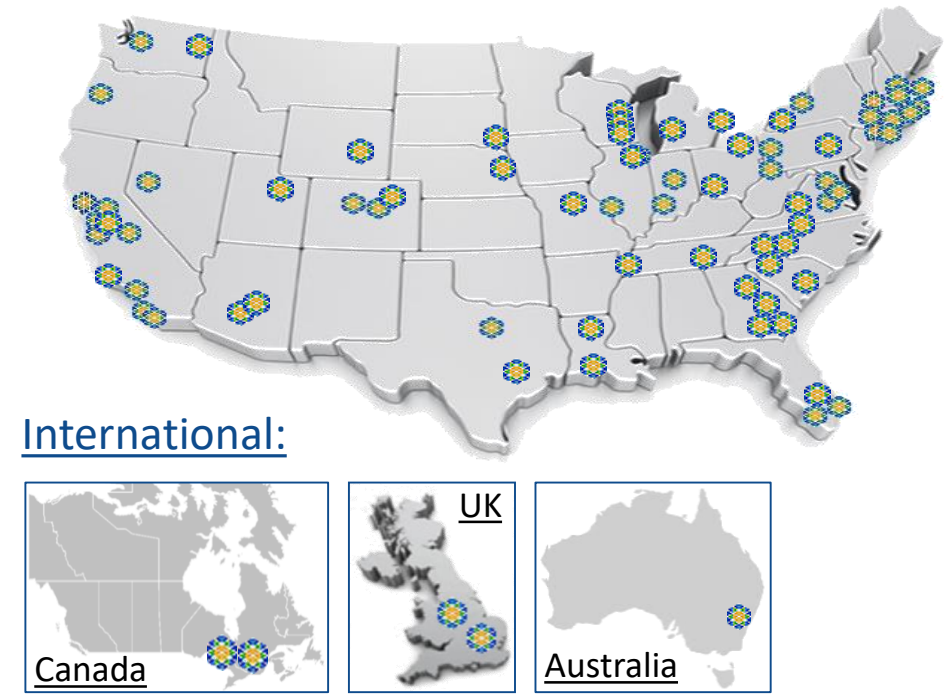
FOCUS FINANCIAL PARTNERS

- ✓ A leading partnership in the $56bn revenue financial planning and advice market[1]
  - RIAs and Hybrids are the fastest growing segment of the fiduciary advice market[2]
  - Industry consolidation is accelerating in the U.S., which is the largest wealth management market in the world

**Revenue ($mm)**




**Geographic Reach**




**59 partner firms with over 3,000 wealth management-focused principals and employees[3]**

1. Source: IBISWorld report dated December 2017.
2. Source: Cerulli Advisor Metrics, 2017.
3. Represents the number of partner firms closed as of March 1, 2019. The number of partner firms has been reduced for those that merged with existing partner firms prior to March 1, 2019.

# Our Partners Primarily Serve Ultra-High Net Worth and High Net Worth Clients

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- ✓ Clients are relatively resistant to economic cycles and use a wide range of services
- ✓ Emphasis is on delivering a full suite of client services, not just managing assets
- ✓ Fiduciary model is stable and sustainable because it is fee-based, not transactional
- ✓ High level of recurring revenue due to quality and breadth of services delivered

| Ultra-High Net Worth ($30m+ Client Assets) | High Net Worth ($2m+ Client Assets) | Affluent ($500k+ Client Assets) |
|---|---|---|
| Planning (Estate / Tax / Wealth Protection) | Planning (Estate / Tax / Wealth Protection) | Retirement Planning |
| Multi-generation Services, Family Intermediation | Multi-generation Services | Asset Management |
| Household Support | Asset Allocation / Asset Management | Fees per Client > $10,000 |
| Business and Personal Investments | Tax Preparation | Fee based on a Contractual Percentage of Client's Assets |
| Asset Allocation / Asset Management | Fees per Client > $50,000 | |
| Tax Preparation | Fees based on a Contractual Percentage of Client's Assets, Time & Service | |
| Fees per Client > $300,000 | | |
| Fees based on a Contractual Percentage of Client's Assets, Time & Service | | |

**Fee-Based, Recurring Revenues in Excess of 95%[1]**

1. For the year ended December 31, 2018.

# Our Investment Thesis

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1. Growth company with differentiated, scalable model and established track record
2. Substantial market opportunity in the U.S. and internationally
3. High-growth business with strong financial fundamentals
4. Emphasis on fiduciary advice, entrepreneurship, access to cost-efficient capital and value-added services accelerates future opportunities

**59**
Partner Firms[1]

**$911mm**
2018 Revenue
YoY Growth: 37%

**95%+**
Fee-Based & Recurring Revenues[2]

**10.3%**
5 Year Average Annual Organic Revenue Growth[3]

**20%**
Targeted Growth Rate for Revenues and Adjusted Net Income Per Share[4]

1. Represents the number of partner firms closed as of March 1, 2019. The number of partner firms has been reduced for those that merged with existing partner firms prior to March 1, 2019.
2. For the year ended December 31, 2018.
3. Organic revenue growth represents the year-over-year growth in revenue related to partner firms, including growth related to acquisitions of wealth management practices and customer relationships by Focus' partner firms and partner firms that have merged, that for the periods presented are included in Focus's consolidated statements of operations for the annual periods presented. Focus believes these growth statistics are useful in that they present full-period revenue growth of partner firms on a ''same store'' basis exclusive of the effect of the partial period results of partner firms that are acquired during the comparable periods.
4. Non-GAAP financial measure. Our long-term objectives may also be considered forward-looking statements. Please see Disclaimer for discussion of forward-looking statements and non-GAAP measures.

# The Market for Fiduciary Advice is Large and Continues to Grow

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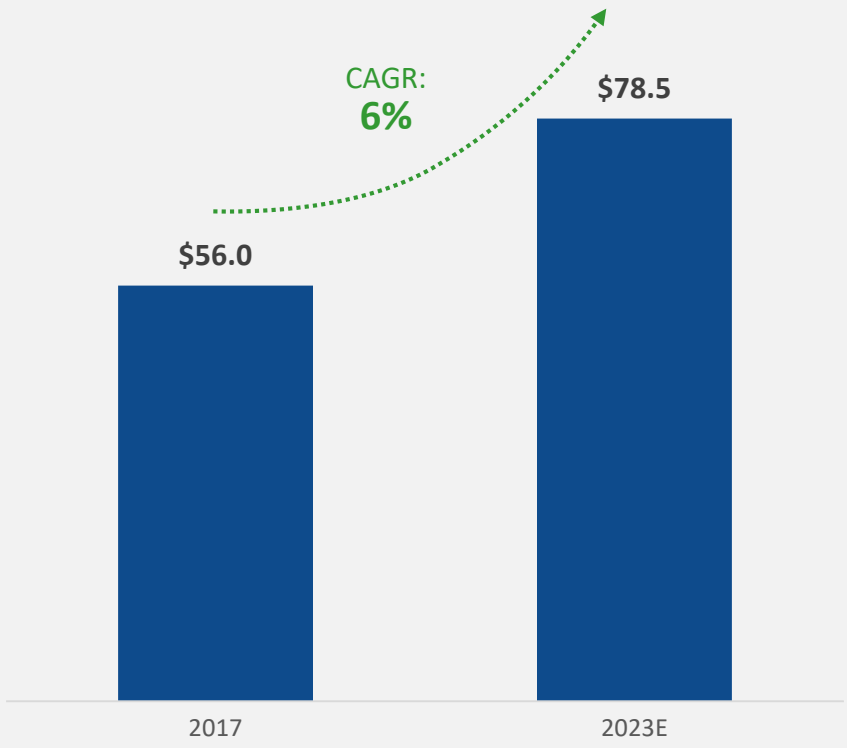
✓ A leading partnership in the growing $56bn revenue financial planning and advice market[1]

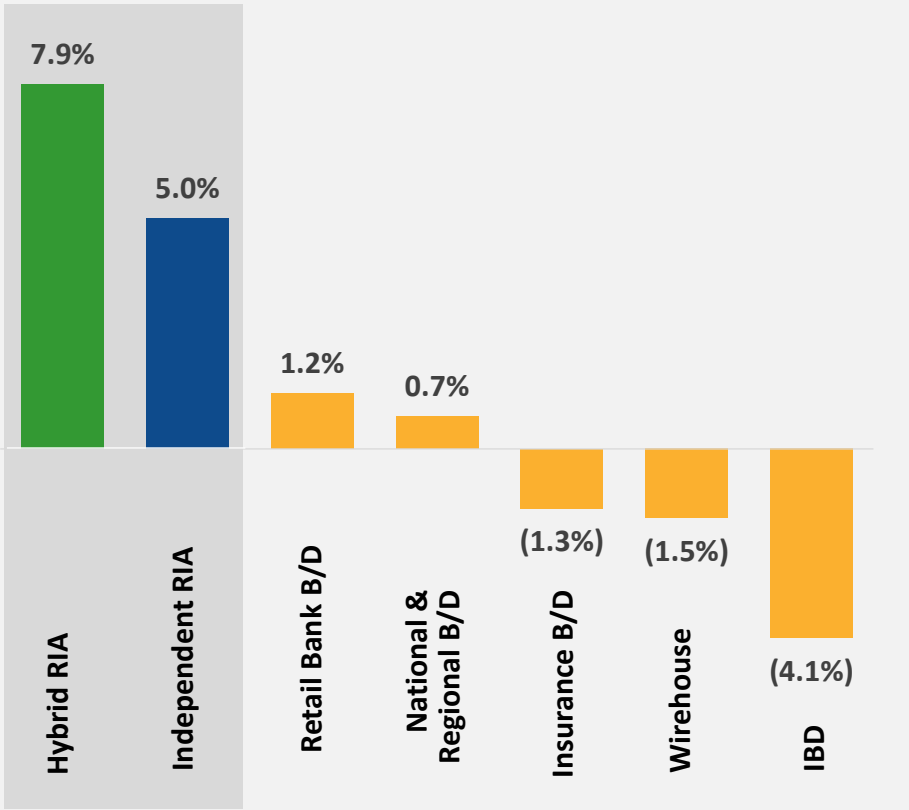
## Addressable Market is Significant and Expanding

Financial Planning & Advice Market Revenue ($bn)[1]




## Shift to Independent Advice

Historical Growth in Advisor Headcount by Channel[2]




1. Source: IBISWorld report dated December 2017.
2. Source: Cerulli Advisor Metrics, 2017. CAGR 2011-2016.

# We Have Multiple Levers to Drive Long-Term Growth

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## "20/20" Long-Term Growth Objectives[1]

**A — High-Quality, Growth-Oriented Partner Firms**

Empower firms and enable growth

Maintaining partner identity and entrepreneurship essential to Focus value proposition

**B — Access to Capital**

Access to low cost of capital through Focus balance sheet

**C — Value-Add Services**

Access to industry thought leadership

Resources of a large organization

**D — Mergers by Our Partner Firms Creates Scale**

Platform to attract and merge targets into partner firms

~5,000 potentially suitable opportunities in the U.S.

**E — Significant Opportunity to Add New, Like-Minded Partner Firms**

~1,000 potential new partner firm opportunities in the U.S.

Multiple opportunities in international locations, starting with Australia and Canada

Growth of Our Existing Partner Firms

New Partner Firms

1. Represents 20% revenue and adjusted net income per share growth guidance, on average and over time. Our long-term objectives may also be considered forward-looking statements. Please see Disclaimer for discussion of forward-looking statements and non-GAAP measures.

# Our Financial Model is Strong and Sustainable

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**Fee-Based & Recurring Revenue**

- 95%+ fee-based recurring revenues[1] and 10.3% average annual organic revenue growth[2] over the last 5 years
- Holistic wealth management fees tied to team-based service model
- Downside protection created by preferred position in partner firm base earnings

**Strong Cash Flow Generation**

- Strong cash flow generation and significant tax shield generated from intangible assets
- Low capex requirements
- Significant variable costs provide downside protection – management fees are 100% variable expenses

**Strong Balance Sheet & Low Capital Requirements**

- "Capital light" model
- Limited asset risk
- Targeted 3-4x leverage with ability to quickly de-lever

**Attractive Growth Profile**

- Proven ability to enhance organic growth of partner firms
- Substantial growth opportunity through direct acquisition of partner firms and scaling of partner firms through merger opportunities with other wealth management firms

**Revenue Shield**
95%+ fee based recurring revenue[1]

**Expense Shield**
Highly variable expense base

**Cash Flow Shield**
Earnings preference

**Legal Shield**
Enterprise protective provisions

1. For the year ended December 31, 2018.
2. Organic revenue growth represents the year-over-year growth in revenue related to partner firms, including growth related to acquisitions of wealth management practices and customer relationships by Focus' partner firms and partner firms that have merged, that for the periods presented are included in Focus's consolidated statements of operations for the annual periods presented. Focus believes these growth statistics are useful in that they present full-period revenue growth of partner firms on a ''same store'' basis exclusive of the effect of the partial period results of partner firms that are acquired during the comparable periods.

# Our Core Competency in M&A is a Key Driver of Our Growth With Excellent Opportunities Ahead

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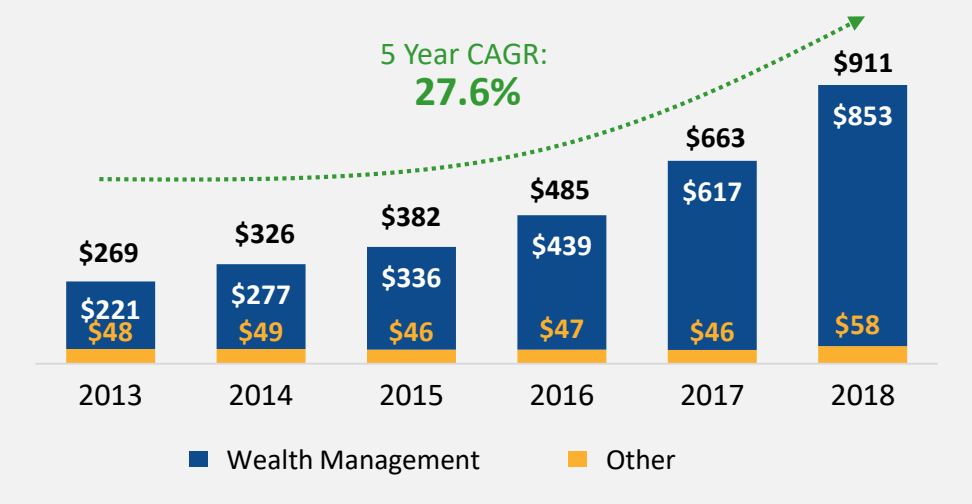
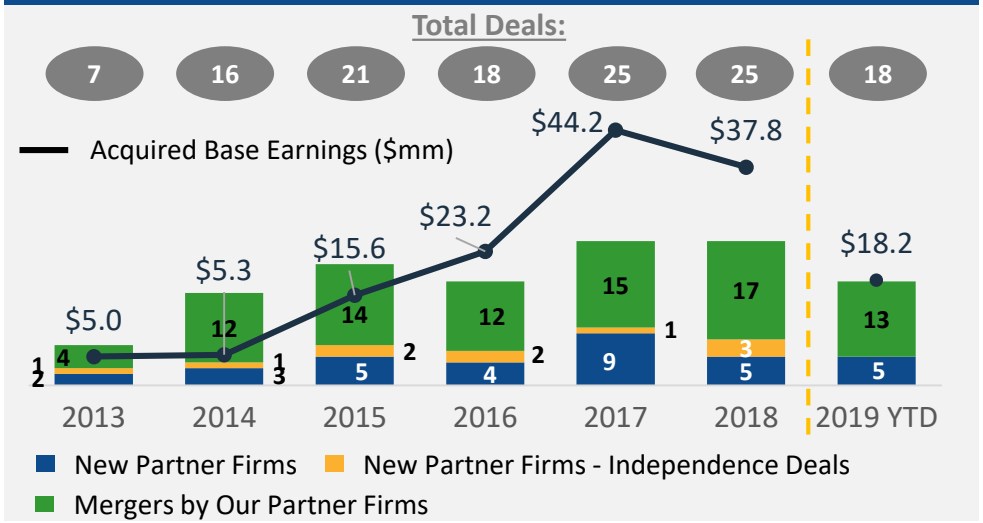
## Revenue[1] ($mm)




- ✓ 37.4% YoY growth in revenues: 2018 vs 2017
- ✓ Target revenue growth of 20% on average and over time
- ✓ 5 year average organic growth[3] of 10.3%
- ✓ 95%+ fee-based and recurring revenues[4]

## M&A Track Record[2]




- ✓ Acquiring and integrating firms are "core competencies"
- ✓ Large number of targets in the U.S.
  - ~1,000 potential new partner firms
  - ~5,000 potential mergers for existing partner firms
- ✓ One of the largest M&A teams in the industry supports our scalability and growth
- ✓ 25 transactions closed in each of the past two fiscal years
- ✓ Over 160 transactions executed since inception

1. Totals may not foot due to rounding.
2. 2019 YTD includes 2 pending partner firms and 4 pending mergers that are signed but not closed yet. 2019 YTD acquired base earnings include $6.3mm from pending new partner firms.
3. Organic revenue growth represents the year-over-year growth in revenue related to partner firms, including growth related to acquisitions of wealth management practices and customer relationships by Focus' partner firms and partner firms that have merged, that for the periods presented are included in Focus's consolidated statements of operations for the annual periods presented. Focus believes these growth statistics are useful in that they present full-period revenue growth of partner firms on a ''same store'' basis exclusive of the effect of the partial period results of partner firms that are acquired during the comparable periods.
4. For the year ended December 31, 2018.

# Our 2018 IPO Has Accelerated Our Growth

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| Rationale | Since The IPO: Early Benefits |
| --- | --- |
| Public currency | ✓ Completed Loring Ward acquisition in Q4 2018, one of the largest transactions in our history, using $112.5mm in public company stock |
| Access to cost-efficient and flexible funding options | ✓ Upsized revolver to $650mm<br>‣ Lowered interest rates<br>‣ Created dry powder for M&A<br>✓ Accelerating deal velocity since July 2018 IPO<br>‣ 18 deals closed<br>‣ 6 deals pending[1] |
| Credibility of being a public company | ✓ Growing partner network internationally and expanding UHNW business<br>‣ **Australia**: Escala Partners<br>‣ **Canada:** Prime Quadrant<br>✓ $18.2mm[1] in 2019 YTD closed and pending new partner firm acquired base earnings |

1. 2019 YTD includes 2 pending partner firms and 4 pending mergers that are signed but not closed yet. 2019 YTD acquired base earnings include $6.3mm from pending new partner firms.

# Our Management Team Has A Proven Track Record and Is Aligned with Shareholder Interests

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## Management Team

| | Name / Title | Years with Focus | Prior Experience |
|---|---|---|---|
|  | **Rudy Adolf*** *Founder & CEO* | 14 | American Express, McKinsey&Company |
|  | **Rajini Kodialam*** *Co-Founder & COO* | 14 | American Express, IBM, McKinsey&Company |
|  | **Lenny Chang** *Co-Founder & MD* | 14 | BCG (The Boston Consulting Group), American Express |
|  | **Jim Shanahan*** *CFO* | 13 | Microsoft, pwc |
|  | **Vamsi Yadlapati** *Managing Director* | 12 | Summit Partners, Salomon Smith Barney |
|  | **Russell McGranahan** *General Counsel* | 3 | BlackRock, Skadden, White & Case |

## Differentiating Factors

| | |
|---|---|
| **Alignment of Interests with Shareholders** | ▸ Top management and private equity partners did not sell equity in the IPO<br>▸ 5-year incentive program linked to a $100 per share price target |
| **Well Respected** | ▸ Broadly viewed as client focused<br>▸ Understand the need to collaborate with partner firms |
| **Large Corporate Management Experience** | ▸ Seasoned team with management experience at prominent firms<br>▸ Track record of delivering growth since inception |
| **Wealth Management Experience** | ▸ Strong background in all aspects of the wealth management and fiduciary advice business |
| **Longevity & Entrepreneurial Spirit** | ▸ Three founders and CFO have worked together for over 10 years<br>▸ Management has longstanding entrepreneurial track record and expertise |

* Named Executive Officers.

# Our 2019 Strategic Priorities Will Enhance Future Revenue and Earnings Growth

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1 **Evolve support provided to partner firms across key components of their businesses**

- ✓ Operations
- ✓ Technology
- ✓ Legal
- ✓ Marketing
- ✓ HR Management
- ✓ Regulatory
- ✓ Cyber Security

2 **Capitalize on merger opportunities to help our partner firms grow**

- ✓ Key strategic objective
- ✓ Leverage core competency in M&A
- ✓ Substantial opportunity

3 **Expand portfolio of partner firms, especially in the ultra-high net worth and high net worth space**

- ✓ Established, profitable RIAs and multi-family offices with proven track records of client service
- ✓ Elite teams from brokerage firms and wirehouses

4 **Seek acquisitions of additional partner firms internationally**

- ✓ Primary focus is on Australia and Canada
- ✓ Monitoring select European and Southeast Asian markets

5 **Introduce innovative value-add initiatives**

- ✓ SmartAsset investment, a top client lead generator
- ✓ Partner leadership development program at Harvard

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# Appendix

# Unique Acquisition Structure

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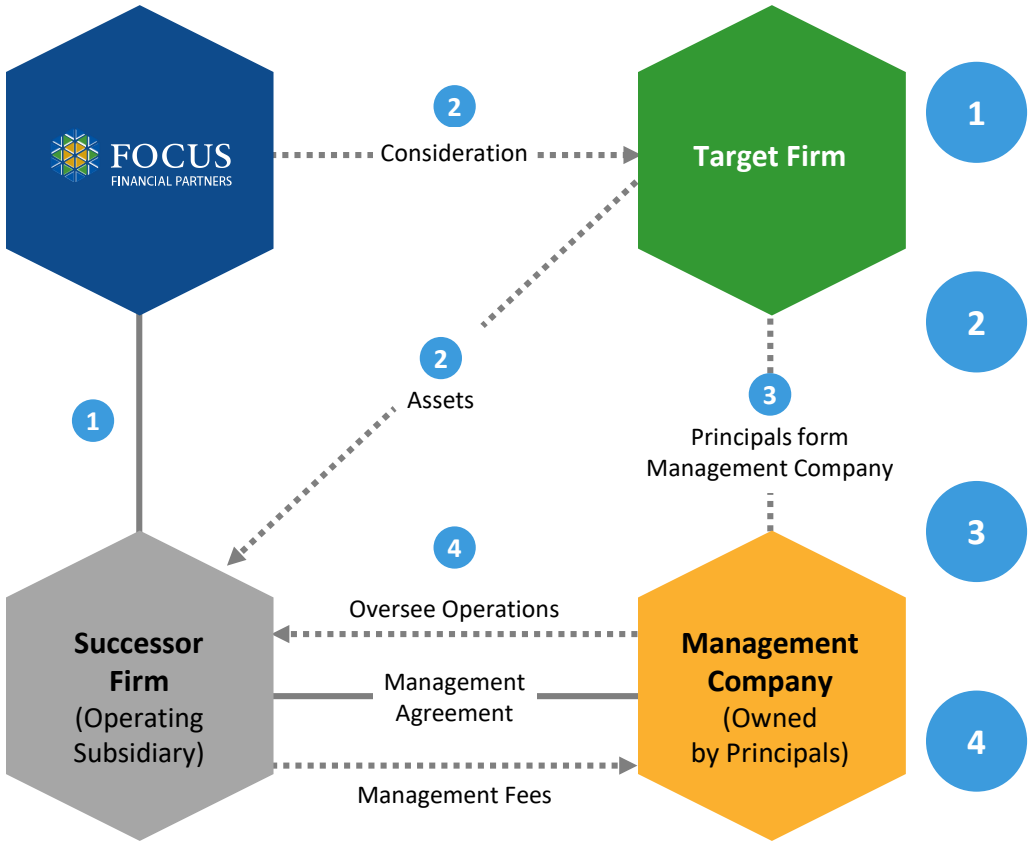
## Acquisition Model – Typical New Partner Firm




1. Focus forms a wholly-owned subsidiary ("operating subsidiary")
2. The operating subsidiary acquires substantially all of the assets of the target firm for a combination of cash, Focus equity and contingent consideration
3. The selling principals form a management company. Newly admitted principals can also join
4. The successor firm, the principals and the management company enter into a long-term management agreement

**Focus structures transactions in a tax efficient manner, whereby tax intangibles are generated**

# Our Acquisition Structure Attracts Entrepreneurs

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## Illustrative Focus/Partner Economics

| ($ in thousands) | Projected Revenues | +10% Growth in Revenues | -10% Growth in Revenues |
|---|---|---|---|
| **New Partner Firm** | | | |
| New partner firm revenues | $5,000 | $5,500 | $4,500 |
| Less: | | | |
| Operating expenses (excluding management fees) | (2,000) | (2,000) | (2,000) |
| EBPC | 3,000 | 3,500 | 2,500 |
| Base Earnings to Focus (60%) | 1,800 | 1,800 | 1,800 |
| Management fees to management company (40%) | 1,200 | 1,200 | 700 |
| EBPC in excess of Target Earnings: | | | |
| To Focus (60%) | -- | 300 | -- |
| To management company as management fees (40%) | -- | 200 | -- |
| **Focus** | | | |
| Focus revenues | $5,000 | $5,500 | $4,500 |
| Less: | | | |
| Operating expenses (excluding management fees) | (2,000) | (2,000) | (2,000) |
| Less: | | | |
| Management fees to management company | (1,200) | (1,400) | (700) |
| **Focus Operating Income** | **$1,800** | **$2,100** | **$1,800** |

## Waterfall

- ✓ First $1.8mm goes to Focus – "Base Earnings" 60% earnings acquired
- ✓ Next $1.2mm goes to the management company – "EBPC Target" 40% of earnings retained by the management company
- ✓ EBPC above $3mm is split 60 / 40% between Focus and the management company

## Structure Considerations

- ✓ Aligns interests of partners with Focus
- ✓ Enhances entrepreneurial mindset
- ✓ Both Focus and partners participate in the rewards from future growth
- ✓ Base earnings provides downside protection

## Legal Considerations

- ✓ 5 year non-compete and non-solicit agreement
- ✓ Initial 6 year management agreement with an evergreen provision. Two year non-compete and non-solicit tail
- ✓ Key employees sign non-solicit and confidentiality agreement, generally one year and two years, respectively