

# Focus Financial Partners Inc.

## NasdaqGS:FOCS

### FQ4 2018 Earnings Call Transcripts

Thursday, February 21, 2019 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2018-			-FQ1 2019-	-FY 2018-			-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
<b>EPS Normalized</b>	0.50	0.51	▲2.00	0.51	1.73	1.74	▲0.58	2.22
<b>Revenue (mm)</b>	244.78	247.52	▲1.12	264.20	908.11	910.88	▲0.30	1150.17

Currency: USD

Consensus as of Feb-20-2019 9:29 PM GMT



# Table of Contents

Call Participants	.....	3
Presentation	.....	4
Question and Answer	.....	10

# Call Participants

## EXECUTIVES

**J. Russell McGranahan**  
*General Counsel*

**James Shanahan**  
*Chief Financial Officer*

**Ruediger Adolf**  
*Founder, CEO & Chairman*

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**Christopher Charles Shutler**  
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**Michael Roger Carrier**  
*BofA Merrill Lynch, Research  
Division*

**Oscar D. Turner**  
*SunTrust Robinson Humphrey,  
Inc., Research Division*

**Patrick Joseph O'Shaughnessy**  
*Raymond James & Associates,  
Inc., Research Division*

# Presentation

## Operator

Good morning. At this time, I would like to welcome everyone to the Focus Financial Partners Fourth Quarter and Full Year 2018 Earnings Teleconference. Our host for today's call will be Founder and Chief Executive Officer, Rudy Adolf; Chief Financial Officer, Jim Shanahan; and General Counsel, Rusty McGranahan. [Operator Instructions] And as a reminder, today's conference call is being recorded.

I'd now like to turn the conference over to Mr. McGranahan. You may begin your conference.

## **J. Russell McGranahan**

*General Counsel*

Thank you, and good morning, everyone. I'm Rusty McGranahan, the General Counsel of Focus Financial Partners.

Before we begin, let me remind you that during the course of this call, we may make a number of forward-looking statements. We call your attention to the fact that Focus results may, of course, differ from these statements. These statements are based on assumptions made by and information currently available to Focus Financial Partners and involve risks and uncertainties that could cause the results of Focus to materially differ from these statements. Focus has made filings with the SEC, which lists some of the factors that may cause its results to differ materially from these statements.

And finally, Focus assumes no duty and does not undertake to update any such forward-looking statements.

With that, I will turn it over to our Founder and CEO, Rudy Adolf.

## **Ruediger Adolf**

*Founder, CEO & Chairman*

Thank you, Rusty. Good morning, everyone, and thank you for joining us. We appreciate your interest in Focus.

On today's call, there are 3 key takeaways I want to highlight. First, as you saw from our release earlier today, Focus ended 2018 on a strong note, capping a very successful year. Our revenues grew more than 37% year-over-year, including 13% of organic growth, and our adjusted net income per share increased nearly 44% for the same period. These results substantially exceeded our objectives of 20% annual growth for each.

Our annualized fourth quarter 2018 revenues are approaching \$1 billion. Reaching this revenue level is an important inflection point in the evolution of our firms.

We not only achieved financial performance that exceeded our targets, but we also made significant progress against our strategy to increase our presence in the high net worth and ultrahigh net worth markets. Our partner firms primarily service high net worth and ultrahigh net worth clients, an attractive segment of the market because of their relative resistance to economic cycles, hence, their use of a wide range of services. This creates a very robust level of client retention and recurring revenue.

Last year, we completed 8 holding company deals and 17 mergers by our partner firms, including some of the largest deals in our history, deepening our presence in those markets. In addition, we provide a tremendous value to our partners through our intellectual and financial resources. We also completed our IPO, creating permanent capital to invest in our business, and we further improved our balance sheet flexibility. Our business has never been stronger, and I'm very pleased with how well we are positioned to grow in 2019.

Second, our target market is large and rapidly consolidating in the U.S. and international. Fiduciary advice is winning in the wealth management marketplace, driven by climb in advice of preferences and strongly supported by regulators. In the U.S., market consolidation has accelerated, which plays to our strengths.

And third, our business model remains highly differentiated. Very simply, there is no other firm that offers what we do. The hallmark of our business model, fiduciary advice, entrepreneurship, access to cost efficient capital and value-added services, are what differentiates us in attracting new, like-minded partners.

The network and scale benefits are real. Every new partner firm and every merger that an existing partner firm completes increases our capabilities, widens our industry reach and further validates our business model, which, in turn, accelerates our growth and access to future opportunities.

I would like to take a moment and update you on how the market opportunity has further evolved since our IPO and how our business model will enable us to capitalize on that opportunity. We believe that there are 3 important elements to focus on.

First, the market for fiduciary advice is large and continues to grow. RIAs and hybrids managed \$4.7 trillion in client assets, about 1/4 of total adviser-managed assets. Today, there are almost 1,000 RIAs each managing assets of over \$1 billion and a total of 17,000 RIA firms in the U.S. These fiduciary advice providers are increasingly preferred by clients and advisers alike and are projected to increase their market share to 29% of adviser-managed assets by 2022 or \$1.44 trillion.

We are a beneficiary of this growth, both through the partner firms we acquired and through the acquisitions those firms make to scale their businesses. We provide these industry numbers, not just because they are interesting, but because they underline the confidence we have in our ability to achieve our 2020 target over multiple years. The growth in size of the industry is a major reason why 2018 was a record year for us, and we believe, the first of many.

Second, industry observers believe that current M&A volume is half or less of what it could be, given the industry size, current fragmentation and the aging of advisers. With 1/2 of all managed assets in the hands of advisers who are at least 55 years old, our support of intergenerational transfer of RIAs is a substantial future growth opportunity. Indeed, in the succession planning services we offer and our excellent track record of acquiring RIAs, we are uniquely positioned to capitalize on this opportunity.

Our ability to scale our partners through acquisitions is a core competency. As of year-end, we have 58 partner firms and have facilitated close to 100 tuck-in acquisitions for the M&A capability that approximately 40% of our partners have utilized to-date. This percentage increases the longer firms have been with Focus, with more than half of firms that have been with Focus for at least 2 years having completed mergers. This demonstrates the additional merger potential embedded in our recent direct acquisitions.

Third, we continue to benefit from powerful technology trends that are changing the way clients and advisers interact, but we never saw a threat from the much-hyped robo-advisor model. Technology is an important enabler of our partner firms' business models. In the last 5 years alone, an array of innovative, flexible, efficient and highly functional solutions has emerged that our partners and their clients benefit from.

Within Focus' scale, we have the benefit of being a major client of many small innovative technology providers as well as the leading custodians, influencing the development programs as well as benefiting from attractive pricing and service levels, which we can pass along to our partner firms, in turn, increasing their operational efficiency and profitability. Our partners benefit from our intellectual and financial resources, operating in a scaled business model this aligned interest while retaining their entrepreneurial culture and independence.

You've probably heard me say this before, and I will continue to do so because it is at the core of what we do. We believe that the best model in wealth management is fiduciary advice, delivered by nimble and close to the client entrepreneurs with the teams. As such, Focus never turns entrepreneurs into employees.

One of the most common questions we hear is, "How have you continued to add partners and achieve this kind of growth despite the kind of volatility we experienced in the equity markets during the first quarter?" While downward pressure on the equity markets happens from time to time, it actually reinforces the value of our partners delivered to their clients. It is during volatile markets that good advice is most valuable to them. We have seen no impact from market volatility to-date in our acquisition pipeline, which, as I have mentioned, is as robust as we have ever seen.

Our partner client base is primarily high net worth and ultrahigh net worth individuals or families. These client groups tend to be disciplined and informed and have confidence in their advisers and wealth strategists and, therefore, are the most loyal client base in the wealth management industry.

Our partner firms do not manage assets against the performance of a particular benchmark like asset managers. They provide holistic advice on everything from financial planning to major life events impacting their family. Yes, they manage equities, but they also manage an array of other assets that are not correlated to the equity markets. And they often serve multiple generations.

Now I would like to briefly touch on our international expansion. As we have discussed previously, we anticipated that our IPO would create more opportunities for us, including international. Our initial focus -- areas of focus are Canada, Australia and the U.K. We recently announced the closing of a new partner firm with Prime Quadrant, a Toronto-based wealth management firm. This is our second partner firm in Canada and is an important transaction as Prime Quadrant serves ultrahigh net worth families and individuals.

Equally important, our work exploring the Australian market is showing excellent results. This week, we announced that we signed a definitive agreement with Escala Partners, one of the leading Australian ultrahigh net worth firms. This transaction is expected to close in the second quarter of this year. Australia is one of the largest wealth management markets in the world outside the U.S., and we are pleased with how our model is resonating with highly sophisticated traders there.

We see our international expansion as an important component of our growth strategy while further enhancing our diversification. Many markets are experiencing regulatory change that is elevating the standards of advice and challenging the incumbent models. We have been exploring and building relationships in these markets, and they present an excellent growth opportunity for Focus.

Our momentum in 2019 has already been significant. Year-to-date, we have closed on 2 new partner firms, AG&S and Prime Quadrant, with total acquired base earnings of approximately \$8.5 million and have 3 pending partner acquisitions with total acquired base earnings of approximately \$9.7 million that we expect to close in the first half of this year. These firms are Lanham O'Dell & Company, Foster Dykema Cabot and Escala Partners. The combination of these direct deals will be mid-single-digit accretive to our adjusted net income per share.

On the merchant side, as mentioned, this is akin to recruiting for traditional players in the nature Focus value adds to our partners. In the first quarter of 2019, we are proud to have already closed 7 mergers and announced 4 additional deals that are expected to close in the first half of 2019. We believe that the strength of our pipeline will drive strong momentum through the rest of the year.

Our priorities for 2019 are clear. First, we will further evolve the support we provide to our partners with value-added initiatives across key components of the business system. Operations, technology, marketing, HR management and leadership development, compliance, cybersecurity and legal support are all areas of critical importance. It is our scale and breadth that enables us to be on the leading edge of these areas and creates terrific incremental opportunities to grow our business.

Second, we will capitalize on the plethora of attractive merger opportunities for many of our partners. Matching, prioritizing and facilitating these mergers is a core objective of our team and also a substantial growth opportunity.

Third, in the U.S., we plan to expand our portfolio through our partner firms, particularly in the high net worth and ultrahigh net worth segments, adding further breadth and depth to our partner network. Our focus will remain on established, profitable RIAs and multifamily offices with a proven track record of client service. In the breakaway segment, we will continue to focus on elite teams only.

Fourth, outside the U.S., our primary emphasis will be on Australia and Canada. We also monitor in select European markets and Southeast Asia, which is a natural extension of our involvement in Australia.

Five, we are testing additional value-added services through our partners, like our recent investment in SmartAsset, one of the leading client lead generators in the industry. We're also exploring new ultrahigh net worth sectors. For example, we are interested in more deeply penetrating the artists, entertainers and athletes client vertical. This growth market is uncorrelated to our other businesses, and we have built an excellent foundation in the space over the last 3 years.

As such, for the remainder of 2019, our outlook is very positive, and we believe we are in the right place, at the right time to take advantage of this secular shift in our industry. We have a strong execution-oriented team in place, and we are fully focused on delivering against our strategic priorities. We believe that the steps we are taking to build upon our highly differentiated business model will continue to drive sustained revenue and adjusted net income per share growth in excess of our targets.

Before turning the call over to Jim, I'm going to update you on the latest addition to the Focus team. Tina Madon has just joined us and will lead our Investor Relations and Corporate Communications efforts. We are very happy to have her and confident that she will help us further develop our relationships with the investor community and media.

Now I will hand the call over to Jim for a more detailed review of our fourth quarter and full year financials. Jim?

**James Shanahan**  
*Chief Financial Officer*

Thank you, Rudy, and good morning, everyone.

First, I'd like to offer a few comments on the format of our financial presentation. The financial statements and other GAAP disclosures contained in our press release include the results of Focus Financial Partners Inc., which is the public company, and those of Focus Financial Partners, LLC, of which Focus Financial Partners Inc. became the managing member and owner of the majority of the outstanding membership interest in a series of reorganization transactions that were completed on July 30, 2018 in connection with our IPO.

As previously mentioned, Focus made a decision to go public for 3 reasons: first, access to public currency; second, efficiency and flexibility of funding options; and third, the credibility of being a public company. It has only been a little over 6 months since our IPO, and we are seeing the initial benefits of this important step.

Our fourth quarter results represents a record financial performance for our business. With regard to our revenues in the quarter, I would like to highlight the following: total revenues were \$247.5 million in Q4 2018, an increase of \$57.7 million or 30.4% compared to Q4 2017. Wealth management fees increased \$53.2 million in Q4 2018 or 29.7% from Q4 2017. Wealth management fees represents a 93.8% of our Q4 aggregate revenues.

Approximately \$37.4 million of the revenue growth during the quarter was the result of new partner firm acquisitions completed after the fourth quarter of 2017. Revenues were primarily driven from domestic partner firms, which accounted for 98% of our Q4 revenues.

Our fee-based and recurring revenues were an excess of 95% of our total revenues, and we expect this trend to continue. We believe these revenue characteristics are rarely seen in the financial service industry, and they demonstrate the strength and enduring nature of our business model.

Our 2018 full year organic revenue growth was 13%. Our 2018 fourth quarter organic revenue growth was 10.7% and included 1 month from the Loring Ward merger, which closed November 30, 2018. In 2019, we estimate Loring Ward will contribute at least \$50 million to aggregate company revenues.

We are excited about the recently completed Dan Goldie RIA transaction on February 1, 2019. Dan Goldie was one of Loring Ward's largest clients and supports our investment thesis that a number of TAMP clients

of Loring Ward will convert to our Buckingham RIA business over time. In short, our TAMP business provides an excellent pipeline of potential merger opportunities. As Rudy mentioned, we have closed or signed 16 acquisitions and mergers to-date in 2019. We expect to achieve year-over-year organic revenue growth of at least 10% for full year 2019.

As a reminder, a portion of our total revenues are not correlated to the financial markets. For Q4 2018, we estimate this percentage was approximately 23% of total revenues. Of the estimated 77% of revenue that was correlated to financial markets, we estimate 73% was generated from advanced billings. Our partner firm billing methodologies are highly diversified and can be billed monthly, quarterly or semiannually and vary from partner firm to partner firm, but advanced billings are generally calendar quarterly and advance. Accordingly, we expect that our Q1 2019 total revenues will be moderately impacted by these advanced billings due to the market decline experienced at the end of 2018.

Additionally, a component of our wealth management services are taxed in related service projects. Based on the timing of certain tax in related service projects that certain of our partner firms complete on behalf of their clients, we estimate that our 2019 Q1 and Q4 revenues may be marginally impacted by approximately \$3 million to \$5 million when compared to 2019 Q2 and Q3 revenues.

Regarding expenses, we remain committed to actively managing our expense base. As we have discussed in the past, our largest expenses are management fees and employee compensation or related benefits. Management fees are formulaic, variable and a product of the earn-ins of our partner firms. Our expenses are stable and correlated to our revenues.

Our EBITDA margin over the last 3 years has been consistent, ranging from 21% to 22%. It's important to note that our EBITDA margin is primarily driven by the percentage EBITDA acquired in our transactions.

Income from operations was \$34.4 million for Q4 2018 as compared to \$2.9 million for Q4 2017. As presented in our consolidated statement of operations, the fourth quarter of 2018 was impacted by \$22.2 million of noncash charges in the fair value of estimated earn-outs.

As a reminder, partner firm earn-outs generally occur over a 6-year period. On the U.S. GAAP, we are required to measure these contingent liabilities each quarter using Monte Carlo simulations. The market decline experienced in December 2018 drove a reduction in the estimate of these liabilities as of December 31. When markets increase, the estimate of these liabilities typically increase.

Interest expense for the quarter was \$11 million compared to \$14.5 million in the fourth quarter of 2017.

In connection with our IPO, we repaid the \$207 million second lien term loan outstanding, and we paid down the first lien term loan by \$185.5 million.

Our fourth quarter GAAP net income was \$17.5 million compared to a net loss of \$9.7 million in the 2017 fourth quarter.

For the 3 months ended December 31, 2018, our adjusted net income per share was \$0.51 per share. As a reminder, the share count for our EPS calculations can fluctuate based on our quarter-end share price, which is used to calculate common stock equivalents for incentive units outstanding at the Focus LLC level. We included a table of our outstanding incentive units and their respective hurdle rates as of December 31, 2018 in our earnings release. We also included a table of the ownership interest in Focus Financial Partners, LLC, including a noncontrolling interest as of December 31, 2018.

Regarding share count, we do not anticipate any equity issuance in connection with our 2019 first quarter acquisition activity, which we expect to fund with cash on hand and from revolver borrowings. However, we will evaluate equity consideration, where appropriate, in connection with our growing acquisition pipeline.

Now shifting to our balance sheet. As of December 31, 2018, we had cash and cash equivalents of \$33.2 million compared to \$51.5 million at December 31, 2017. We had approximately \$839 million outstanding on our credit facilities compared to \$1 billion as of December 31, 2017. The outstanding amounts under our credit facility were comprised of \$799 million of term loan borrowings and \$40 million of revolver



borrowings. Our revolver has a \$650 million facility size, which will be primarily used for acquisition activity.

At December 31, 2018, our net leverage ratio under our credit facility was 3.33x. As we complete additional acquisitions, our leverage ratio may vary although our objective is to maintain a ratio between 3 to 4x over the long term.

Our cash flow metrics are strong, and we expect this to continue. We generally assess these metrics on an annual basis as there can be routine timing difference between our quarters.

With respect to our 2018 annual cash flows, I'd like to point out the following: first, we generated \$105.9 million of operating cash flow for the year ended December 31, 2018, an increase of \$36.8 million or 53% from the prior year. Second, our business is not capital-intensive. We spent only \$9.1 million on CapEx in 2018 or just 1% of total revenues. Third, we expect to continue to use cash generated from operations and our revolver capacity to fund acquisition activity in 2019. And fourth, our acquisitions generally also include a tax shield on acquired intangible assets. As noted in our earnings release, the pro forma 27% tax shield for acquisitions that closed as of December 31, 2018 is estimated to be approximately \$25.2 million for the next 12 months.

As Rudy mentioned, we added 8 new partner firms in 2018 and have new partner opportunities throughout 2019. We are confident in our ability to continue growing, both organically and through new partner firm additions. We have conviction in our ability to execute on our long-term strategy of growing annual revenues and adjusted net income per share by 20% on average and over time.

Now I'll turn it back over to Rudy to provide some concluding remarks. Rudy?

**Ruediger Adolf**

*Founder, CEO & Chairman*

Thank you, Jim.

In closing, 2018 was an exceptional year for Focus with our fourth quarter and full year results underscoring this momentum. As we embark on a busy 2019, supported by our strong momentum, we are confident that the fiduciary principle, combined with entrepreneurship and value-added services, will drive shareholder value over time.

With that, we'll now open the call for questions. Operator?

# Question and Answer

## Operator

[Operator Instructions] And our first question comes from Michael Carrier of Bank of America Merrill Lynch.

### **Michael Roger Carrier**

*BofA Merrill Lynch, Research Division*

I just have a question. You've been very active on the deal front in 1Q. I mean, you provided some of the revenue contributions for the outlook, but just can you provide some color on maybe the related expenses? Like, anything changing on the structure of these deals, and then also the financing or pro forma debt level just so we can kind of get the full picture going forward.

### **Ruediger Adolf**

*Founder, CEO & Chairman*

Michael, thanks for your question. So yes, we are very active on the deal front. In fact, you'd probably remember that we said Q4 is going to be slow, but momentum in -- which is typical, but momentum into '19 is excellent. And that's exactly what we are seeing right now. And we have acquired base earnings here, \$8.5 million that are closed, \$9.7 million that are pending. So overall, excellent momentum as we enter the quarter. The deal structure has not changed. Quite frankly, the deal structure is literally the same as when we started our business in January 2006. And we are very proud of the deal discipline and structural discipline that we are applying. And so in other words, as I often say to prospects, if you are with Focus, you can have any color. As long as it is black here, there's one deal methodology that we are using for holding company deals, and it has served us extremely well over the years. Multiples are very similar. Yes, there is not much dynamic there. It speaks to, I think, the power of our value proposition that we just continue to be able to attract outstanding firms and, fundamentally, comparable economics as we had for many years now. We financed our transactions with cash that Focus is generating. And of course, as you have seen and as Jim mentioned before, we are financing it out of our debt facility. Our deals are -- most of our deals post-IPO will be all cash. We have tremendous cash flexibility under the revolver, which -- including Bank of America is supplying here, thank you. And we basically have tremendous flexibility there for a good period of time. Only in special situations, and the first illustration of such was the Loring Ward deal, are we going to use our own currency. So in this case, it was roughly a little less than 50% was stock in the Loring Ward transaction. But this is always under very unique circumstances where the transaction, of course, overall is accretive and very attractive over time. But at the same time, the use of our stock is appropriate given what the seller interests are or any other dynamics that get factored into the transaction.

### **James Shanahan**

*Chief Financial Officer*

Yes. And just to add to that, Mike. Our deal structure for the new partner firms here that have signed year-to-date and are pending is typical -- in our typical EBPC range of 40% of 60% of cash flows. Our historic EBITDA margins are 21% to 22%. We don't see a significant change there. They will be funded from the revolver and from cash as indicated. At year-end, we were at 3.33x LIBOR. And we're still sticking with our guidance that we'll be between 3 to 4x, and we should be under that.

### **Michael Roger Carrier**

*BofA Merrill Lynch, Research Division*

Okay. And then one follow-up. Just given some of the margin volatility that we saw in the fourth quarter and maybe even throughout '18, when I look at the organic growth on the revenue side, you guys still put up like healthy year-over-year growth. But it also seems like some of your partner firms are pretty active on the acquisition front, too. So I guess, just any color in an environment like '18, in terms of what your partner firms saw in terms of maybe net flows versus deal activity that you guys include in organic

growth? And then maybe in a normal environment when you don't have as much market volatility, maybe what that mix could look like?

**Ruediger Adolf**

*Founder, CEO & Chairman*

Yes. So as I mentioned before, quite frankly, this level of volatility, in many ways, strategically, is good news because this is where prudent advice truly shows itself. And our partner firms' ability to retain clients is exceptionally high, and it is very much based on this prudent advice holistic business model that is, of course, at the very core of fiduciary wealth management. If ever there was a doubt how Focus is doing versus the asset management sector, look at the Q4 numbers where, of course, asset management was suffering, and we showed excellent growth overall. And of course, it's a 10.7% organic revenue growth. Momentum is very positive. We don't see any change in that. And we are very, very comfortable with our 20% revenue growth and 20% adjusted net income per share growth guidance for the remainder of the year.

**James Shanahan**

*Chief Financial Officer*

Yes. Just to add to that, I mean, our partners feel good. And as you think about the nature of their business model, it's a 95-plus percent fee-based recurring revenue. We've been migrating more towards high net worth and ultrahigh net worth clients. Our services are not just an investment service tied to an index or something possibly like the asset manager. So we're really providing holistic services to the clients and our partners that create relationships with their clients. So it's a nice model to have, even during times of volatility.

**Operator**

And our next question comes from Oscar Turner of SunTrust.

**Oscar D. Turner**

*SunTrust Robinson Humphrey, Inc., Research Division*

So I guess, my question is somewhat a follow-up to your answer, and it's really just on the '19 rev growth outlook. I think you just said you're comfortable with the 20% revenue growth guidance this year. I don't know if you can break that down between organic and acquired revenue. Is it in line with your longer-term guidance of 10% organic and 10% acquired revenue?

**Ruediger Adolf**

*Founder, CEO & Chairman*

Yes. Well, Oscar, thanks for your question. And yes, absolutely. I mean, as we have guided the market in the IPO and subsequently, we believe this tremendous market opportunity and the uniqueness of our model can sustain growth rates that, of course, are rather unique in the financial services space. So as we are looking into the remainder of 2019, we are comfortable. We are reaffirming this 20% guidance. We usually guide towards about half of it, plus minus, coming from organic. The other half from holding company transactions. This may vary a little, but from an overall perspective here, we believe that what we have demonstrated for many years prior to the IPO. Of course, last year was an exceptional year with the type of numbers you are seeing today, but we are very comfortable sustaining the 20% for the remainder of 2019.

**Oscar D. Turner**

*SunTrust Robinson Humphrey, Inc., Research Division*

Okay. And second question is just on the Loring Ward integration. At a high level, I was wondering how we should think about the portion of the TAMP assets that are expected to migrate to the RIA. And then how should we think about the timing of the migration of those assets?

**Ruediger Adolf**

*Founder, CEO & Chairman*

Yes, excellent question. And as you know, we are very excited about the Loring Ward transaction. It was a very large bit that we made on our partner firm, Buckingham. One of our most successful and largest partner firms. And it was, ultimately, Oscar, this proof of concept that we have demonstrated with Adam Birenbaum at Buckingham in '15 that they can migrate TAMP assets here over to their RIA, which was one of the important levers that we have seen, creating this exceptional growth that our partner firm Buckingham has demonstrated since they joined us in 2007. Loring Ward is about \$17 billion. The combined TAMP is about \$35 billion in TAMP assets. Rule of thumb, economics of growth, it varies, but it would be somewhere between 25 -- plus/minus, about 25 bps on revenues here on the TAMP. And on the RIA, this is closer to 70 bps or more. So it's more than a double in terms of economics. As Jim mentioned, the Dan Goldie transaction, one of Loring Ward's largest and longest tenured client was proof of concept. This was, I mean, close to \$1 billion in conversions here that will happen here with Dan Goldie. And it's not going to happen -- it was never intended to be that kind of an avalanche of \$35 billion moves from one side to the other. But we see it as a steady flow of TAMP assets, billions a year over to the RIA. And the reason is what Buckingham developed with our help after they joined us is this adviser life cycle solution, where they can ultimately offer their TAMP clients really a full, kind of continuum of services, including when they are ready to say, "Okay, yes, I want to retire or I'm getting closer to retiring, and it is critical for me that a like-minded institution that I know very well can take over this client and provide the same level of service and capabilities as we did in the past." This is the solution that ultimately is being rolled out or we'll be in the process of rolling out for Loring Ward and that we believe is very attractive, ultimately, leading to this asset migrations from the TAMP to the RIA.

**Oscar D. Turner**

*SunTrust Robinson Humphrey, Inc., Research Division*

Okay. Great. Just one more follow-up. Did you guys provide Loring Ward's revenue contribution in the fourth quarter?

**Ruediger Adolf**

*Founder, CEO & Chairman*

No. We closed the deal on November 30. We are guiding to \$50 million in revenue contribution in 2019. So you could do the math, plus/minus \$4 million-or-so that contributed to the fourth quarter. And in the script here, you see it's \$50 million, roughly, for 2019.

**Operator**

And the next question comes from Alex Blostein of Goldman Sachs.

**Alexander Blostein**

*Goldman Sachs Group Inc., Research Division*

Just a follow-up on the M&A discussion. I guess, Rudy, it sounds like the opportunity outside the U.S. is growing. And it also sounds like you guys are starting to focus or do more in the high net worth channel. Can you talk for a minute about that how the economics in both of these channels differ, perhaps from kind of the installed book of business, whether from kind of purchase multiples, margins or how you potentially would have to fund these deals?

**Ruediger Adolf**

*Founder, CEO & Chairman*

Yes, absolutely, Alex. So the way we -- the reason we, for probably the last 2 or 3 years, very much wanted to strengthen the ultrahigh net worth and high net worth segment is because we simply think it is the most attractive segment in the industry, which is based on client retention. It's based on the wide range of services. Of course, the fees charged per service or asset are lower because this is, of course, a much broader service model. But the overall, for the net margins, quite frankly, are very comparable to our traditional RIAs. From a multiple perspective here, we have always been in a very disciplined range of multiples. Quite frankly, they are very comparable across the various segments, maybe it's a touch higher in the ultrahigh net worth in the dynamics. But really, fundamentally, we look at these deals with the same economics. But quite frankly, even more long-term sustainable and long-term growth-oriented given the

client base. Now you're correct. International, which today, of course, is a very small piece of Focus, is a very exciting growth opportunity for us. We just announced the Prime Quadrant deal in Canada and Escala in Australia. And really, my cofounder, Rajini had spent a lot of time on these international markets. And it is really now showing terrific results. These are both ultrahigh network firms, these are both some of the most attractive firms in their respective markets. And Escala is at a very significant scale. They perhaps reported some of these numbers wrongly, it's about a \$5 billion firm. So we like international, multiples are absolutely comparable. And we see this, for many years, as an attractive component of our growth strategy. Now Alex, what's really important to stress, however, is we are not going into international because we are running out of opportunities in the U.S. The U.S. market is extremely large. Of course, you see the momentum with the deals that we have announced and closed just year-to-date. The reason we are going into international is fundamentally because we see additional growth opportunities. We see additional opportunities to diversify. And quite frankly, we simply are very intrigued with the power of our business model as it resonates in this very large wealth management markets like Australia and Canada.

**Alexander Blostein**

*Goldman Sachs Group Inc., Research Division*

Got it. And then just a couple of clarifications, I guess, at this point. So I appreciate the extra color you guys provided on kind of the drivers of the organic growth and updates on kind of what's the billing and the percentage of revenues that are related to markets or not. So I guess, if we kind of look at the mix that you've talked about in the past, it feels like Q1 could be sort of 2% to 3% headwind for market action. I just want to make sure on earnings. So I just want to make sure that, that's within kind of how you guys are seeing the business today given we're kind of halfway through the quarter.

**Ruediger Adolf**

*Founder, CEO & Chairman*

Yes, yes. So actually, very important and we need to be crystal clear, the guidance we provided, actually, in your investor conference in December, pertains to revenues. What we explained was how markets impact our revenue performance. They did not go through all these shields of protection that we have to ultimately create an even better performance from an earnings perspective. And of course, the recurring nature of our revenues, it's the variability, mathematical variability of the management fees. Of course, it's the preference that we have here, some of the points that Jim went through. So it's, obviously, only half through the quarter. But there will be a small impact on our first quarter revenues. So yes, there will be a small impact, but then Jim and I are enforcing that overall, we are very comfortable with the 20% guidance. Quite frankly, that's always been factored into this. So net-net, this level of volatility, really, is strategically supportive of our business model. It's not an area that makes us very nervous.

**James Shanahan**

*Chief Financial Officer*

Alex, one way to sort of think about it is maybe take the Q4 revenue, you reduce it by the nonmarket correlated revenues of 23%. That would give you the correlated revenues. We have many different billing practices, even within the advance category. So we sort of say, it implies 73% advance billing methodology. Then use industry data on when a moderately risk client maybe allocated to equities. In our IPO, we said 56%. These are some things that you could kind of think about. That's what the markets were at the end of December. Obviously, those numbers flow into Q1. But obviously, markets have improved in January and February as it relates to the arrears portion of the billings.

**Alexander Blostein**

*Goldman Sachs Group Inc., Research Division*

Yes, that all make sense. And Jim, the comment you made about tax seasonality, I just want to make sure. So Q4 and Q1 is a couple of million dollars higher, and then it drops off in 2Q, 3Q? I think you said impacted, but it wasn't clear where those are.

**James Shanahan**

*Chief Financial Officer*

Yes. What we are trying to say is as we had partner firms and the mix of our wealth management expands, we do certain projects and tax compliance and things like that. And they're generally lower in Q1 and Q4 on an annual basis at this point based on existing partner firms, and they're higher in Q2 and Q3 by the numbers that I called it.

**Operator**

And our next question comes from Kyle Voigt of KBW.

**Kyle Kenneth Voigt**

*Keefe, Bruyette, & Woods, Inc., Research Division*

If I just dig in a little bit more to this nonmarket sensitive revenues of 23% that you disclosed in the quarter. I think a portion of that is coming from more of these business management firms that you've been acquiring, including WG&S, Altman, David Weise. So I guess, the questions are: first, just can you go over the fee structure for those business management firms? And kind of what services they're providing exactly for those entertainment clients? And then secondly, I guess, the runway is so large to roll up in the RIA space. And you tell a great story there. I guess, why do you feel like it's strategically important to also expand into these artist and entertainer business management firms as well?

**James Shanahan**

*Chief Financial Officer*

Right. So one way to think these firms, such as Deegans and Nigros and so forth, think of them as outsourced CFOs to the ultrahigh net worth, whether that's entertainers, actors, directors and so forth. So everything that would be involved in the lifestyle of these clients, they would be managed by our partner firms. So all things surrounded, tax, accounting, financial statements, dealing with their insurance, dealing with all their advisers, including their wealth advisers. And then sort of building on that, generally, on a time basis or on a fixed fee basis, on a monthly basis, quarterly basis, so not too different than the traditional RIA business.

**Ruediger Adolf**

*Founder, CEO & Chairman*

Kyle, so, of course, as we said here, 95% of our revenues are fee-based recurring. And we really like this segment. And quite frankly, my cofounder, Lenny Chang, is really leading many of these initiatives. And what we like about it is it is mostly -- or it's almost exclusively an ultra high net worth and high net worth segment. So it speaks to the right target market. The revenue, as Jim just explained, is basically not market-correlated. Now that we have been operating in this space for, I guess, over 2, 3 years, we see attractive growth dynamics. In fact, very attractive growth dynamics. Quite frankly, we are starting to see that some of these ultrahigh end here are multifamily offices, if you want, starting to work with some of our RIAs, which I think could ultimately help them provide an even better service to their clients. So we look at this as a highly attractive segment for which our -- the essence of Focus, our trusted adviser model, really, impacts a very high retention client base that is very differentiated. So it simply a segment that we like and the segment that, on balance, quite frankly, I want to expand even further despite the exceptionally large market share that we now have in this market.

**Kyle Kenneth Voigt**

*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay. And then just to follow-up on the pipeline, really, like near-term pipeline commentary. Just given the really strong start to the year, in aggregate, I think you disclosed \$18 million of acquired base earnings or just over that. That should close by the end of 2Q. But is that likely the only deal that will close by the end of the second quarter? Are there some other partner deal -- partner firm deals in the pipeline that could also close in the first half of the year as well?

**Ruediger Adolf**

*Founder, CEO & Chairman*

Yes. So yes, Kyle, we are extremely busy. It's busy, as I said, in Q4, kind of giving some guidance towards the start of this year. Momentum is just exceptional. And while the specific timing of deal closing is kind of impossible to predict, we are very comfortable that we, from everything we can see right now, we will have a very strong year again. And quite frankly, in the medium-term momentum, so your question to the second half of this year, it feels very, very encouraging. The powerful thing is, and we said this when -- why did we want to IPO? The public currency for select transactions. Of course, our highly attractive cost of capital, meaning whenever Focus deploys capital, we ultimately create accretion to our share price. And simply, the credibility of being a U.S. public-quoted company, arguably, the highest standard of governance in the world. And quite frankly, being the only public company in that space at very significant scale, again, by the humble standards of our industry. It's just creating opportunities that we are really excited about. And per Oscar's question before, we expect to be reaffirming our guidance. And more or less half of this guidance at least will come from this holding company transactions, and the other half will come plus/minus from the organic growth of our partner firms.

**Operator**

And our next question comes from Chris Shutler of William Blair.

**Christopher Charles Shutler**

*William Blair & Company L.L.C., Research Division*

On tuck-in acquisition opportunity, I'm not sure, I might have missed it, but can you tell us how many tuck-in transactions there were in the fourth quarter excluding Loring Ward? And then I just want to confirm, I think what you said, so far in 2019, that you've closed 7 of them and 4 more under contract. I just want to confirm that.

**Ruediger Adolf**

*Founder, CEO & Chairman*

Yes. So Chris, mergers is our bread-and-butter. This is what, in so many ways, we have brought to this industry. It is a source of enormous value added to our partner firms. For many of these, it's, quite frankly, it's just akin to recruiting. Wirehouses or IBDs call it recruiting. We call it mergers because here, we just use a different deal structure, but it is very, very similar and comparable. And yes, we did 2 of these mergers in the fourth quarter of last year. And we currently are doing...

**James Shanahan**

*Chief Financial Officer*

So just sort of to add on to what Rudy is saying, we did 2 in Q4, Chris. One was Loring Ward and the other one was AFAM, a Chicago firm we previously announced. And so far, year-to-date, there's 7 transactions, and we've -- I'm sorry, we have 11 transactions, of which we've closed 7 and 4 are pending on the merger perspective.

**Ruediger Adolf**

*Founder, CEO & Chairman*

We're doing so many of these deals. This counting is always very hard.

**Christopher Charles Shutler**

*William Blair & Company L.L.C., Research Division*

Got you. Okay. And then on the organic growth, I know you don't break down kind of all the different subcomponents. But can you give us a sense, I guess, qualitatively, kind of what flows look like in 2018? Were they slightly negative, flattish, were they positive? Any kind of qualitative commentary would be great.

**Ruediger Adolf**

*Founder, CEO & Chairman*

Yes. So obviously, organic growth, the way we define it, is first starting, and that is very typical for the ultrahigh net worth segment. It's more money from existing clients, that's step #1. And then second is the new client money. And then comes in marketing depreciation, depreciation, merger activity and so on and so forth. When we talk to our partner firms and, of course, when we look at these numbers, the flows are attractive. Flows are very attractive. Client retention is never an issue in this industry. Even in '08, '09, quite frankly, we demonstrated extremely high client retention, and we continue to see this. And the first segment in terms of getting more money from existing clients, that's where there is some additional market correlation because what's that money? This is, ultimately, of course, mainly entrepreneurial or senior executives, artists, entertainers. And they sell businesses, they exercise options. Again, artists, entertainers are different. These contracts are just uncorrelated to the market, which is why, as I explained to Kyle before, we really love this segment. But the markets are stronger. This just keeps folding and, quite frankly, more options get exercised. So this is where we have some correlation. We like the flows that we saw last year. Quite frankly, we are very optimistic in what we are currently seeing. As I explained before, this Q4 volatility, quite frankly, which is irrelevant for the quartile business model. So I think we're in an excellent spot. And one reason why Jim and I are so comfortable with our guidance is because we believe that the same-store 10% is going to be very powerful.

**Christopher Charles Shutler**

*William Blair & Company L.L.C., Research Division*

Okay. And then lastly, Rudy, regarding the deal that you just announced in Australia. Can you talk a little about how that deal came together? What the competitive environment in Australia looks like versus the United States? And remind us why you structured it as a minority interest?

**Ruediger Adolf**

*Founder, CEO & Chairman*

Yes. So actually, point one, just to clarify, Escala is not a minority interest. It is the same transaction structure that we use in the U.S. So it is identical. How did the deal come together? Well, quite frankly, it's thousands and thousands of miles from the airplanes from my cofounder, Rajini, and one of our principals who is leading the initiative, and I took a couple of trips there. And what we see in Australia and why we are so excited about it and why it's worth it, these long flights is: a, Australia is a very large market. It is one of the largest wealth management markets in the world. And it's based on the superannuation scheme that they have, which is, of course, a pension scheme that just created enormous investable assets and is, I think, quite unique in the world and very, very powerful. A very good example of public policy in, I think, in so many ways. Second, it is a market that is more undergoing extreme disruption. It is a market that basically is called the Royal Commission, where many of the traditional players are being pushed out of the market. In fact, there are significant fines and sanctions. So basically, many of the traditional leading similar in the U.S. to the product push suitability model are being pushed out and sanctioned by this Royal Commission, which creates an enormous drive towards fiduciary advice, which, of course, is the segment that we know better than just about anybody in the world. And it's this -- my kindred is we call this discontinuity. It's this level of discontinuity in a highly attractive market with nobody doing what we are doing that creates what we believe is a really unique opportunity. We have -- I think the first time we have met the principals, that was a number of years ago at Escala in our firms. And quite frankly, as always, we've stayed in touch. They had to accomplish certain things internally. But what we found is truly a like-minded firm. A firm that very much -- they don't call it this way in Australia, but that is a fiduciary in the way we would call them in the U.S. It is an ultrahigh net worth firm. It has very deep management talent. And quite frankly, it's just -- it is an excellent business. It's very significant scaling by U.S. standards. But we also hope that what we bring to the party, it can become a platform for other advisers that hopefully will join Escala. And of course, we have demonstrated through our value-added programs that we can help them attract other advisers at very significant scale. And we believe this can be a very attractive proposition from the perspective of an Escala client. Of course, hopefully, Escala partners and, of course, for us as partners in this journey.

**Operator**

And our next question comes from Patrick O'Shaughnessy of Raymond James.



**Patrick Joseph O'Shaughnessy**

*Raymond James & Associates, Inc., Research Division*

Curious about what the environment looks like right now in terms of competition for your partner firms? I think kind of inferring from some of your comments, it seems like you feel like you're pretty well positioned. But what are you seeing out there in terms of private equity money or other competitors trying to go after some of the same assets that you're looking at?

**Ruediger Adolf**

*Founder, CEO & Chairman*

Yes. Well, thanks for your question. By the way, I feel that we are more than just pretty well positioned. I think we are in an exceptional position as, of course, we have demonstrated since the creation of the business in 2006. The private equity, that's kind of show up occasionally, once in a while. It's more like the in-and-out type of phenomenon that's very difficult to private equity. Our differentiation versus private equity is we are permanent capital. And particularly, when you are dealing with an ultrahigh net worth client base and you need to explain to them that you build a business over many years, you have been the adviser, and then you are telling them, "Okay, as a step here, I'm going to bring in an external partner." And so they are going to come in. Our ability to compete with PEs is extremely high because in our case, the conversation is around it's a value-added partner, it's one of the largest -- we would argue the largest fiduciary wealth manager in the world. It is a firm that has a track record of adding value to us as a new partner. It's a firm that has very specific examples of value added, and it is permanent capital. It is not the type of situation where money goes in, the money goes out, somebody else. High net worth individuals really don't like this dynamic. So in so many ways, private equity is, here and there, they are interesting. But quite frankly, most advisers, particularly in the space that we are operating in predominantly, would not want to go through these private equity round-robin that is so typical in this industry. Banks. Banks do show up and, quite frankly, have been in and out this industry forever and will be in and out of this industry. And we occasionally have lost a few to Ulster banks. Later on, we find out that they are paying significantly higher multiples in these particular transactions. But our track record of banks, of investing in this type of assets and then storing them in the next 3 to 5 years is extremely high. In variable, because they call it one point comes to many other. When we do lose a deal or know somebody, which is basically, beam me up, Scotty, because this just doesn't work. Banks are not good fiduciary advisers. Period. And as such, are struggling in the segment. There are some level of intramarket consolidation, which does happen. But usually, there's very little capital involved, and quite frankly, it's very easy for us to compete with. And of course, there's almost a great fiat of similar initiatives out there who are trying to copy our business model. We are significantly larger than just about all of these firms combined. So we feel very, very comfortable. And it's so important that our model attracts the type of partners we want to attract, which are people who believe in their own businesses, who want to grow their businesses, who have a long track record of serving their clients well, who are passionate in the services that they are providing. And for these type of firms, if you want to remain an entrepreneur, you want access to value-added services and you want access to capital, we firmly believe we're the only game in town and, therefore, highly differentiated.

**Patrick Joseph O'Shaughnessy**

*Raymond James & Associates, Inc., Research Division*

Great. And then to follow-up on that, are you seeing any difference in terms of your success or your win rates with existing RIA firms versus breakaway brokers? I don't think you spoke to any independent deal during 2018. So kind of what are you seeing on that front?

**Ruediger Adolf**

*Founder, CEO & Chairman*

Yes. Actually, no. We have done a number of independent deals that we announced last year. So in the breakaway, we actually have 3 transactions in 2018, who are independent transactions. So our core, as I explained, the core of what we are doing and we have always been doing is establish a highly profitable, growth-oriented RIAs. That is the core of our business. And in the breakaway segment, we are highly, highly selective. The vast majority of breakaway teams simply do not make our quality criteria. And in

many ways, we say no to a vast majority of these deals when there are opportunities or when people approach us. Because this brokers simply, there's a huge step to go away from "I'm selling products" to "I'm a fiduciary adviser held to the highest standards of advice in the industry." And quite frankly, most brokers simply will never be able to make this transition. For these elite of the elite, ultimately, and there are 2 deals that will close this year, and there are many others in the works. So some others in the works, I should say. There, we are offering the highest quality transition experience from a client perspective, from an adviser perspective for the employees involved. But then most importantly, we are setting them up for growth, basically, standing on the experience of 60 other RIA partner firms, where, of course, we have tremendous insights and tremendous knowledge. So you're really starting as a best practice RIA. They open your doors after investing via our house, which has tremendous growth implication opportunities. And you're simply operating at very, very attractive margins. So we like this segment. It's very selective, but yes, we will continue to do these transactions. And there are at least 2 more that are right now committed that you will be hearing about shortly.

**Operator**

And that concludes our question-and-answer session for today. I'd like to turn the conference back over to Rudy Adolf for closing remarks.

**Ruediger Adolf**

*Founder, CEO & Chairman*

Yes. So thank you all for joining. We hope you had seen exceptional results that we just showed in this fourth quarter. I hope you have seen our confidence in the way how we look into 2019. And we are looking forward to update you on our call for the first quarter in 2019. Thank you all.

**Operator**

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.

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