Focus Financial Partners
Third Quarter 2022 Earnings
November 3, 2022

<u>**Presenters**</u>
Rudy Adolf - Founder, Chief Executive Officer, Chairman
Jim Shanahan - Chief Financial Officer
Rusty McGranahan - General Counsel
Tina Madon - Head of Investor Relations & Corporate Communications

<u>**Q&A Participants**</u>
Craig Siegenthaler - Bank of America
Michael - Goldman Sachs
Ryan Kenny - Morgan Stanley
Gerald O'Hara - Jeffries
Matt Moon - KBW
Owen Lau - Oppenheimer
Patrick O'Shaughnessy - Raymond James

Operator
Good morning. I would like welcome everyone to the Focus Financial Partners 2022 third quarter earnings call. Joining today's call are Rudy Adolf, Founder and CEO; Jim Shanahan, Chief Financial Officer; Rusty McGranahan, General Counsel; and Tina Madon, Head of Investor Relations and Corporate Communications.

At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press *0 on your telephone keypad. Please note this conference is being recorded. And with that, Mr. McGranahan, please go ahead.

Rusty McGranahan
Good morning, everyone. 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 list 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. Rudy?

Rudy Adolf
Thanks, Rusty. Good morning, everyone and welcome to our call. This morning, we announced another quarter of strong results, which again exceed our guidance on all measures despite an exceptionally volatile period in the capital markets. We generated revenues of $519.9 million in the third quarter, up 14.4% versus the prior year. And our year-over-year organic growth rate was 3.4%.

Our adjusted EBITDA was $128.7 million, up 13.4% versus the prior year. And our adjusted EBITDA margin was 24.8%. Our adjusted net income, excluding tax adjustments per share, was $0.86 and tax adjustments per share was $0.20. Despite a market correction, we did have excellent revenue growth and improved margins, demonstrating the continued strength of our fundamentals. Our results, again, showed the resiliency of our business, reflecting the benefits of our revenue diversification and variable cost base, combined without our structural earnings preference, which helped mitigate the market exposure of our earnings and cash flows.

Our results are also reflect (ph) the value of trusted advice, particularly in this environment. Our partner firms deliver comprehensive wealth management services to high- and ultra-high net worth clients who take a long-term view on structuring their wealth and they are engaged in every element of their client's financial lives, beyond just investment management. Volatile market conditions, are when prudent, fiduciary device is of the utmost importance, reinforcing the loyalty and long-term retention of these client relationships.

In fact, 18 Focus partner firms were recently named to the 2022 Forbes/SHOOK Top 100 RA list, almost 20% of the total, which nearly half of those also being named to the Barron's 2022 list of top 100 RA firms. This level of recognition reflects the exceptional client service these firms, and all of our partners, are delivering during the current period. Looking forward, we expect the same industry pattern as in prior times of volatility.

According to Cerulean, RAs outperform in post-crisis periods, increasing industry managed asset growth rates by 60 to 70% versus their compound annual growth of approximately 10% per year in normalized markets and substantially outpacing the wire houses in broker dealers. We saw this phenomenon in 2008 and '09, and again in 2020-21, two of the most significant market crises in recent history, and we believe that we will see it again, once current markets recover.

I've mentioned these statistics before, but they bear repeating because it is during periods like this that the executed transactions that deliver some of the greatest upside and our partners experience elevated client referrals. Collectively, we believe these dynamics position us to outperform if markets recover. The strength of our quarterly performance was enhanced by our strong M&A activity. Year-to-day, we have closed or announced five new partner firms and 19 mergers, bringing our year-to-day transaction total to 24 deals.

We closed on FourThought Private Wealth on November 1st. FourThought, which manages approximately $1.1 billion in client assets, will deepen our presence in the rapidly-growing Florida wealth management market. The team is well position to benefit from our value-add programs, particularly our client solutions. In addition, we announced the acquisition of Beaumont Financial Partners, a premier, independent wealth manager, that will augment our extensive presence in and around Boston, by benefiting from our value-added resources and its proximity to other leading Focus partners in the Northeast.

Industry M&A deal volume remained strong during the third quarter, with year-to-date transaction volumes up 23%, compared to the first nine months in ’21, and with ‘22 on pace to be another record year, according to Devot (ph) Research. Devot also notes that while year-to-date sales of larger RIAs have moderated, compared to the same period in ’21, M&A activity among RAs with less than $1 billion in client assets has increased 54%, year-over-year.

The flexibility of our model, which enables us to acquire on a direct basis, on behalf of our partner firms, in the form of mergers, positions us to benefit not only from strong industry volumes, but also from changing seller dynamics. Devot also highlights that 52% of RAs seek to become a buyer of other RAs as parts of their growth strategy, which was a driving force behind the merger activity that we have completed, year-to-date. This dynamic further reinforces our value proposition of providing entrepreneurs with permanent growth capital, in excess to our value-added programs to accelerate their growth and mergers are an economically attractive form on acquisition for us.

We are frequently asked by investors whether current market conditions are impacting M&A activity. Our experience is that M&A in this business is secular, not cyclical, because the primary capitalists of consolidation, succession, and the need for scale are not market dependent. Even extreme market volatility, like what we saw in ’08 and 2020, tends to only delay transactions, leading to catch-up periods of high-deal activity. This industry continues to under-consolidate, which is amplified by current conditions.

We remain beneficiaries of these dynamics, as is evidenced by our transaction volume, year-to-date. This year will be one of our strongest for M&A activity, overall, as well as one of our most active years for mergers, on behalf of our partner firms. We anticipate that full-year 2022 will also mark a strong year for acquisition capital deployment, with over $500 million invested to grow and enhance our partnership. We continue to add high-quality new partners and match good progress in executing our strategy to expand our international footprint.

Our value-add programs remain a significant differentiator for us, both within our partnership and as an important part of our value proposition to other firms who decide to join us. These programs are an important source of organic growth and revenue diversification for our partners. We are very pleased with the progress in both our business and client solutions, with a number of our teams expanding, as our partners increasingly take advantage of these programs.

We have a robust pipeline, including further international expansion. Our partners remain very active in pursuing mergers to accelerate their growth and expand their geographic reach and enhance their client service capabilities. Additionally, there continues to be a focus on talent in this industry. Mergers are often a attractive conduit for adding strong advisory teams, where there is a cultural and organizational fit. Our ability to source and execute these complex transactions is a valuable competitive edge for our partner firms.

We remain disciplined in our capital deployment and return criteria. We have no need to raise equity capital and our business continues to generate a substantial amount of cash flow. Multiples are softening (ph) and we do not see the excesses of 2021. This environment is also allowing for greater flexibility in aligning buyer and seller interests, enabling us to structure transactions to be supportive of our targeted, 3.5 to 4.5 times net leverage ratio. Our M&A team is the largest and most experienced in the industry and has deep expertise in the complexities surrounding deal sourcing, structure, and pricing, as well as in navigating the nuances of transacting in such a relationship-based industry.

There are key competitive advantages, as we execute on our acquisition pipeline, going into 2023, and as we build additional scale and grow our partnership. In recent conversations with many of our partner firms, they continue to navigate the challenges of the macro environment well. The feedback remains unchanged, despite the third quarter decline in markets and bearish outlook for many. The concept of the experienced, trusted advisor, proactive and consistent client communications, and well-balanced portfolios, structured for the long-term remain central themes.

These are the times that create numerous opportunities to engage with clients, further solidifying those relationships. More than ever, clients seek stability and advice by advisors who have served them for long periods of time, advisors whose advice proves itself in the outcomes and who have seen many market cycles who, as one of partner CO describes, have been there and done that. The other element of what we hear, which was also a theme last quarter, is that our partner clients are evaluating this years' downturn within a multi-year context.

With the S&P 500 up over 75% from the beginning of 2016 to the end of Q3 '22, there is no capitulation on long-term financial plans. As another of our partner CO says, this won't be the last downturn we'll see in our lifetimes. We have to play the long game. As the fourth quarter gets underway, it remains challenging to determine how the macro environment will evolve, but we anticipate that market conditions will remain volatile for several additional quarters, at least.

Against this backdrop, with anticipate that we will achieve a full-year revenue growth rate for 2022, of approximately 17% in adjusted EBIDTA growth rate of '22, of 15%. As we have demonstrated throughout this year, we continue to weather the storm well and use it as an opportunity to position ourselves to accelerate growth, as markets and economies recover. A decentralized approach to partnering with entrepreneurs enables us to remain nimble in how we

manage our business and positions us and our partners to take advantage of the opportunities on the horizon.

We believe these attributes, together with our embedded operating leverage, will drive sustained outperformance, if markets stabilize. It is for these reasons, that we are confident that Focus will generate substantial growth and deliver superior value to its shareholders, over the long term. With that, let me turn the call over to Jim. Jim?

Jim Shanahan
Good morning, everyone. We delivered strong results this quarter, again demonstrating the stability and resiliency of our business against a challenging macro backdrop. The performance of our partner firms was strong, and while current conditions raise the obvious questions around inflation, monetary policy, geo-political risk, and the economic impact of a recession, their clients continue to remain focused on their long-term financial objectives.

We are executing well against our M&A pipeline and we remain confident that we will navigate the current challenges and emerge well positioned to capitalize on the forward-growth opportunity within our industry. Now for a few comments on the key elements of our Q3 P&L. Our revenues were $519.9 million, increase in 14.4%, year-over-year, and above the top-end of our guidance range of $505 to $515 million. The resiliency of our revenue in this market environment is, again, notable.

Our Q3, year-over-year organic revenue growth rate was 3.4%, also above the top end of our 0 to 2% guidance, primarily due to better-than-expected revenue growth across our partnership of 87 firms. I want to take a moment again to reinforce five, key elements of our revenue diversification, which helped mitigate the impact of declining markets, as you saw this quarter. I mentioned these on our call in August, but believe they bear repeating.

First, approximately 23.9% of our Q3 revenues come from non-market correlated sources, which is a significant percentage of our total revenues. Unlike during COVID, in 2020, when these revenues were impacted by the lockdowns, our non-market correlated revenues are providing a valuable hedge in this environment. Second, a growing percentage of our revenues come from international sources. Approximately 6.4% of our Q3 revenues were generated by our partner firms in Australia, Canada, the U.K., and Switzerland, which represented a new country for revenue diversification in Q3, with the closing of our partner firm, Octagon.

Third, our billing structures reduces the impact of volatile markets in any given quarter. Approximately 65.6% of our Q3 market correlated revenues were billed in advance, while 34.4% were billed in arrears. This structure also gives us good visibility into our revenues in the upcoming quarter. Fourth, our partner firms each manage their own investment processes. Each respective partner firm has its own investment committee and investment philosophy and follows its individual asset allocation methodology.

And fifth, decline of our partner firms are high- and ultra-high net worth individuals and families, whose approach to investing is fundamentally different than that of the typical client of an asset manager. They are invested to a generally focused on multi-generational capital preservation and wealth creation. This mindset is reflected in how they invest their assets, and in turn, in our market-correlated revenues. The combination of these elements, plus the variable nature of our management fees, and earnings preference is why our revenue and earnings performance has been so resilient this year.

As a result of our strong Q3 revenues, our adjusted EBITDA was $128.7 million, reflecting year-over-year growth of 13.4%, and our adjusted EBITDA margin was 24.8%, above our guidance of approximately 24%. Year-to-date, our margin was 25.1%, reflecting the stability of our business, despite market condition. Additionally, our earnings preference provides an important structural protection to our earnings and cash flows.

To help investors better understand the structural protections in our financial model, we have included slides 24 to 26 in our earnings supplement. On the M&A front, we recently closed on one, new partner firm, FourThought, on November 1st and we expect to close an additional new partner firm this quarter, Beaumont Financial Partners. Based on mid-quarter closings, we anticipate these firms will add estimated revenues approximately $3 million, and adjusted EBITDA of approximately $1 million in the fourth quarter and more than $21 million in annualized revenue and $7.3 million annualized, adjusted EBITDA.

As Rudy highlighted, our pipeline is strong, with a high-quality transaction mix. Joining international partnership of 87 like-minded firms, led by dynamic management teams, is highly differentiated in the independent, wealth-management space. Our value proposition conditions to resonate with firms in the industry and we are a highly sought-after partner. Now, turning to our Q3 expenses and cash flows - management fees were $123 million, or 23.7% of revenues, which was a lower percentages compared to the second quarter of this year, reflecting the modest, sequential decline in revenue and the variable nature of our management fees.

Because management fees are our second-largest operating expense and are correlated to the profitability of our partner firms, quarter-to-quarter, they provide an importance source of earnings and cash flow stability in volatile markets. Non-cash equity compensation expense was approximately 1.5% of revenues, in line with our estimate, and we expect this expense will be approximately 1.6% of estimated Q4 revenues. The third quarter was impacted by the change in the estimated fair value of earnouts, pursuant to our Monte Carlo simulations, under GAAP.

Accordingly, we recorded a positive, $30.7 million, non-cash change in fair value of estimated contingent consideration in our statement of operation. Market conditions drove the reduced estimate of these liabilities as of September 30th. As markets recovered, these estimates typically increase. As of September 30th, our LTM cash flow available for capital allocation was $345.8 million, increase in 15.4%, year-over-year, reflecting the strong financial performance of our partnership, despite volatile markets.

Our gross, un-amortized tax shields was over $2.8 billion as of September 30th, which will support our cash flows in future periods. We also paid cash, earn-out obligations of $47.9 million and deferred purchase consideration obligations of $1.5 million, which was in line with our Q3 estimate and we anticipate that our earn-out payments will be approximately $38 million in Q4. Now, for a few words on our Q4 P&L expectations. We estimate that our Q4 revenues will be in the range of $505 to $515 million, a sequential decrease of approximately 1 to 3%.

This range does not include an estimate for performance fees. While our guidance reflects the effect of the decline in market conditions in the second half of this year, it also demonstrates the benefits of the revenue diversification I mentioned earlier. We expect that our Q4 organic revenue growth rate will be approximately -10%, due in part to a comparably strong Q4 '21, which included approximately $20 million of performance-fee revenues. The $20 million of performance fees in the prior year has a -4% impact on our Q4 2020 organic revenue growth estimate.

I also want to remind you that our advanced billing structure, which generally reflects market levels in the prior quarter, also results in a lagged effect of markets on our organic revenue growth rate. The time and amount of our performance fees varies, based on the source. For example, one of our partner firms that specializes in alternative investments, is working on a real estate fund transaction. We have not included that estimate in our Q4 revenue guidance because the transaction may close in Q1 of next year.

As we typically do, we will provide a full-year update on our performance fees on our Q4 earnings call. We anticipate that our Q4 adjusted EBITDA margin will be approximately 23%, which we estimate would bring a our full-year margin to approximately 24.5%. The estimated, sequential decline in our margin is due to lower revenues that we anticipate in Q4. Our partner firms continue to take a very thoughtful approach to managing their expenses. They are mindful of the risk of reducing expenses too severely in reaction to current market conditions, limiting their ability to respond as markets recover.

While lower market levels have an impact on our revenues, they are not currently making significant adjustments to their operating expenses. Our partners objectives continue to center on building stable businesses that deliver consistently high levels of client service. Periods like these are also when our partners tend to see higher levels of client referrals. Additionally, talent recruitment and retention remains of paramount importance and it's difficult to find advisors in their 30s and 40s with experience in managing sophisticated, high- and ultra-high net worth clients.

Our partners are focused on ensuring that they deliver a superior client experience across cycles and capture the full potential during the recovery. However, should challenger market conditions persist for a long period of time, our partners can adjust their expenses accordingly. Now let me turn to our balance sheet. As of September 30th, we had approximately $2.4 billion in debt

outstanding, and we ended the quarter with a net leverage ratio of 3.98 times, which was in line with our guidance.

We estimate that our Q4 net leverage ratio will be approximately 4.25 times. I know the impact of rising rates on our interest (inaudible) remains a focus (ph) for the investment community. As a reminder, $850 million of our $2.4 billion of debt outstanding has liber swapped from a floating rate to a fixed, weighted average rate of 62 basis points, plus a spread of 200 basis points. We typically use 30-day liber in our term loans. Assuming 30-day liber was 200 points higher in Q3, rather than the average liber rate of 221 basis points in effect during the quarter on our term loan bar-ins, we would have had incremental, quarterly pro forma interest expense of approximately $8.2 million, which is net of our $850 million hedges.

This type of pro forma increase, especially when evaluated on an after-tax basis, is a headwinds, but manageable for our business, with annualized revenues in excess of $2 billion. While we selectively use equity as an acquisition currency from time to time, I would like to reiterate a point Rudy made, which was we do not have to raise equity capital. Given the depressed levels of which our stock is currently trading, such a raise would not be attractive.

Additionally, while we have not used our authorized $200 million stock buy-back, it does remain available. In closing, the benefits of the diversification of our revenues are once again evident in our financial results during another very challenging period in the markets. Our partner's businesses are built on deep, long-standing client relationships that have withstood the test of time, across market cycles. We fully expect that the resiliency and stability of our results will continue to be evident as we navigate the ongoing market turbulence. We and our partner firms are actively planning for when markets recover, which we believe will offer substantial growth opportunities as it has after other major crises. Now, let me turn the call over to the operator for Q&A. Operator?

Operator
At this time, we will be conducting a question-and-answer session. If you would like to ask a question, please press *1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press *2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please, while we poll for questions.

Our first question comes from the line of Craig Siegenthaler with Bank of America. Please proceed with your question.

Craig Siegenthaler
Hey, good morning, Rudy, Jim. Hope you're both doing well. So, it's great to see so much M&A activity this year, given that it's a challenging year for most companies. But I'm curious, how much softer is the competition for new deals versus the last few years. And also, how have valuation multiples trended this year versus the last couple years?

Rudy Adolf
Yeah, so I indicated on earlier calls, the -- we clearly see a softening in multiples. But, more important, we see more flexibility on structuring of the transactions. And, year-to-date we have announced 24 transactions, Craig. Stayed tuned. There will be numerous, additional announcements. As I said, at the end of last year, this is going to be one of our best M&A years and that's exactly what we are seeing.

From a competitive perspective, yes, it, quite frankly the -- 2021 was a very unusual year. Sometimes I call it amateur's hour because there were some very aggressive competitors. They are gone, from what we can tell. And we now see a more rational and more kind of constructive market, from an M&A perspective. Now, even when I look into next year, it's going to be, again, from what we can tell at this point, a very solid market, from an M&A perspective, and most importantly, the -- particularly in times like these, when we look back, we do some of the best transactions we have ever done, because there's this natural tailwind that their recovery both benefits these new partners.

But of course, also benefits Focus. So overall, we like where we are from an M&A perspective. We are very excited about these 24 transactions and you will hear about quite a number of more deals.

Craig Siegenthaler
Thanks, Rudy. Just as my follow-up, I wanted an update on the contingent payment liabilities. I see the number, I think is about $320 million, the 10-Q was down a decent amount. I think a lot of that is probably just the markets. But is that still the best estimate for future payments that you're going to need to make on deals already announced? And maybe just a little color on what drove the decline.

Jim Shanahan
One second, Craig.

Rudy Adolf
If you note, this is always a model that we run. It's a Monte Carlo analysis. And you are correct that the biggest impact is basically the assumption for the markets and that you are really feeding to this model.

Jim Shanahan
Yeah, Craig, the liability is $189.1 million. It's in our 10-Q at September 30th. And we recorded an adjustment to that earn-out in our income statement for the forecast of the long-term earnings to our Monte Carlos. And that was a pick-up in the income statement in Q3.

Craig Siegenthaler
Thank you, Jim.

Operator
Our next question comes from the line of Alex Blostein with Goldman Sachs. Please proceed with your question.

Michael
Hey, guys, this is Michael on for Alex. So, I guess, kind of a similar vein here, but unleveraged capacity, if this deal activity healthy, as it has, how do you think you'll managing funding mix between cash and equity, going forward? And obviously not necessarily issuance of new equity, but using equity to fund these deals? Thanks.

Rudy Adolf
Yeah, Michael, this is where the point I made before really comes in very helpful and that's, it's not just that we see a softening, from a multiple perspective, but we also see more flexibility from a structuring of the transactions. In fact, a number of the deals that we will be announcing in the not too far future, are literally supportive of our leverage, meaning the up-front multiples are below our target leverage range.

That's something that is very helpful, from a capital deployment perspective. Then of course, in addition, you need to remember that our cash generation, you know, we announced $346 million from a TTM perspective, is just extremely strong. So we will be able to sustain a strong M&A momentum into 2023, without having to tap into equity in any way. We are very clear, there is absolutely no need to raise equity for us.

We have enough cash flow and capacity here to sustain the M&A -- the momentum. We will always use some part of consideration, as we have done. Historically, we are using equity to increase this alignment between partners and us and, quite frankly, it's very often extreme, as well. But, yeah, we are in a very good position to complete an excellent year in '22 and we will see significant momentum into '23.

Michael
All right. Thanks, Rudy. So not necessarily issuing equity but using equity as part of the funding mix. It sounds like that's going to be (inaudible) --

Jim Shanahan
Yeah, Michael, yeah, if you go back from when we went public to 2018 through today, we've used equity on a very limited basis. But we always have the currency available. We're generating a lot of cash flow. We don't need to raise equity, as we noted in our prepared remarks. But certainly, for select transactions, new partners that join us, we use equity. But it's been, historically, a very small percentage.

Rudy Adolf
Yeah, so it's con -- very consistent, these past practices.

Michael
Okay. That's helpful. I guess for my follow-up -- last year in 4Q you had that performance fee, you kind of spoke about that in the guidance. But can we expect anything like that in 4Q '22, or any other kind of events-driven, one-time revenues? Thanks.

Rudy Adolf
Yeah, so when we provided the Q4 forecast, yeah, we were very clear that we did not make an assumption around performance fees. And so really you need to look at Q4 last year, ex performance fees, and look at our guidance to give you the intrinsic growth of the business. There is one particular transaction, where the timing is just currently hard for us to see. It could still hit in Q4. It could go into Q1.

We feel very optimistic that the Beaumont -- that a substantial performance fee will come in relatively comparable to last year, but one thing we have seen this year, and I've said on prior earnings calls -- by overall, of course, the performance of the business has been very strong, but timing, both of transaction closing, timing of performance fees, is simply harder to predict this year than it was in prior years. So, yes, could still be in Q4, but we didn't put it into the forecast. Could be a Q1 event, but it's highly likely we are going to see this performance fee and it's purely timing.

Michael
All right. Thanks, guys. Very helpful.

Operator
Our next question comes from the line of Ryan Kenny with Morgan Stanley. Please proceed with your question.

Ryan Kenny
Hi. Good morning. Thanks for taking my question. I wanted to dig in a bit on the expense side. So the compensation ratio ticked up, Q over Q, and then heard the comment on the prepared remarks that account retention is important. So I just wanted to clarify is the rate take away from that, that the comp ratio should continue to tick up or that it should just remain elevated?

Jim Shanahan
Yeah, so if you go through all the ratios for this quarter, what you see is, we look at the margin based on how we share the economics with our partners and clearly see the comp margin went up about 2.7%, but the SG&A went down and then so did the management fee, which led to the margin being ahead of our guidance.

We obviously -- we've acquired some new firms in Q4. We don't go into the exact split of all the expenses, between comp and SG&A, but we do expect some growth in the comp expense, due to the addition of the new partner firms. Also, in Q4, we expect a little more SG&A-type cost,

due to our year-end partners meeting and typical year-end client type of events, which is all baked into our guidance in Q4 of 23%.

Rudy Adolf
Yeah, Ryan, on the compensation side, our partners have really not adjusted expenses and I think it's the right call. The -- there is a competition for talent. We have exceptional people working in this business and our reality is you need to prepare for the upswing. And we all believe that for every 2020, there's a 2021.

And we don't know when this is coming, but it will be coming and we need to have the capacity to really take advantage of -- as demonstrated in 2021, the tremendous operating leverage this business has when we have some tailwind. So our philosophy and our partner's philosophy is, of course, manage prudently and through the current environment, but very much be prepared for the upswing and it's the -- on your question of timing, it's going to come.

Ryan Kenny
Thank you. And then, just as follow-up, does the stronger dollar impact the international expansion strategy at all?

Rudy Adolf
Well, it's a good time to buy in international. But we don't market-type just based on currency. But, of course only 6% of our revenues are international at this point. But yes, it is one of many factors where we do see a good opportunity to deploy U.S. dollars in these international markets. But this is just one out of many other factors that go into this -- into these decisions.

Ryan Kenny
Thank you.

Operator
Our next question comes from the line of Gerry O'Hara with Jeffries. Please proceed with your question.

Gerald O'Hara
Great. Thanks and good morning, folks. Rudy, I think you alluded to a pipeline of -- a strong pipeline of value-added programs. But hoping you might be able to kind of give us a little bit color -- a little bit more color as to what might be forthcoming there or, perhaps, if I misheard you, just sort of some context around what some of the business solutions that might be really resonating with partner firms are in the current environment. Thank you.

Rudy Adolf
Yeah, absolutely. And, we really like the progress that we have -- that we are having in these programs. Top of the list alternatives, we have some firms that have very deep, terrific expertise in the alternatives area. And we are making these programs available to other partners and the

momentum is very strong there. And just given where the markets are, the world of the traditional 60/40, 55/45 portfolio is simply, is gone. So you need to have a more sophisticated asset allocation.

And true multi-asset strategies and having this expertise from some of our partner firms that have done this for many, many years available to other partners is a very, very powerful part of our value proposition. And much more to come on that in the future. Credit -- a very strategic program. We have over ten credit specialists now working in the holding company. Program, to date, we have worked on, like, $2 billion of credit advice. And really resonates and will continue to be an important part of value added.

As we explained in the past, we have really brought the concept of open architecture to high-end, private banking. It's never been done before and is resonating and really empowering our partners in a very exciting way. Insurance -- we have not -- we have hired two specialists who work with our partners in advising the clients. Still earlier days, but we like what we see and we believe, again, this open architecture approach towards insurance and estate planning is going to have significant legs.

A trust -- we have just hired a second trust expert, or really an estate lawyer -- to basically help our partners. It's a program that again resonates well, still earlier days, but very much our core value proposition. And the reason why you see such an excellent momentum on the M&A side is ultimately, directly, linked to these type of programs. We're, quite frankly, also crediting insurance trust. I couldn't think of anybody in this industry, probably mobilly (ph), who has this depth of expertise and the level of purchasing power that we have. And it's truly distinctive, from an incline perspective, and from a partner perspective.

Gerald O'Hara
Great. Thanks for that. And then, maybe one for Jim. On slide six, you detail the sort of the earnings preference, both from new partner firms and I think cumulative, acquired base earnings. But can you maybe remind us, or just sort of help us think about how those figures are impacted in an environment that we've seen, year to date, where both equity and fixed income in next markets are down and where the resiliency and the protection is within that sort of framework?

Jim Shanahan
Yeah, we showed this slide as a data point of the new partner firms that we've acquired since 2019. As we've often said, firms that have been with us for many years are above their target earnings. We generally buy between 40 to 60% of the economics. So when you're way ahead of your target earnings, we and the partner firms -- the management fees are a share in pro rata and the upside and the downside.

The purpose of this slide is to say, okay, here are the firms that you've acquired in the fairly-recent past, where perhaps they might not have growth way past their target earnings or most

recent firms may be a little below their target earnings, so you have a little bit of color, in terms of the earnings preference that we have in the recent past.

Rudy Adolf
Yeah, and keep in mind the -- when you look on the same-store (ph) growth perspective, our partner firms, including mergers, growth 14.8%, excluding mergers, 10.2%. So, it doesn't take a long time until firms here simply outgrow the preference. And that's why we use this two-year rule.

But, quite frankly, even with the level of market disruption that we all have seen, S&P and Russell down over 20%, it doesn't really -- it hasn't kicked in, in any material way, except for the recent transactions. So, what we love about our partner portfolio is they just have done so well over the years, that for most of them, the preference is simply a historic footnote, not an important economic concept anymore.

Gerald O'Hara
Okay. That's helpful. If I could actually just sneak one in quickly. As we wrestle with the performance-fee dynamic, do you all disclose what performance-fee eligible assets are, by chance? The answer to this might be no and that's fine. I'm just -- just wanted to make sure we're kind of on the same page.

Rudy Adolf
No, but what we do - so, we don't disclose the -- what's -- what the asset on the -- the underlying assets is. But we do, as we did in Q4 last year, is we disclosed the percenta -- or rather the actual amount of performance fees. I think it was $20 million in Q4 '21. So, we give you the specific number, once we know it. And as I said before, is we simply have a calendarization issue. We don't know it's in Q4, we don't know if it is Q1. Very high probability we will have substantial performance fees again and that's why we simply gave guidance for Q4 that excluded this concept.

Jim Shanahan
Yeah, the transaction that was discussed relates to a real estate portfolio sale transaction, not a typical, year-end, high-watermark type of concept. So, when the transaction closes, that's when we would expect the performance fee and we think it could be this year, but it's more likely Q1 next year.

Gerald O'Hara
Okay. Thanks for taking my questions this morning.

Operator
Our next question comes from the line of Kyle Voigt with KBW. Please proceed with your question.

Matt Moon
Hi. This is actually Matt Moon on for Kyle. So I just wanted to switch gears a little bit on the topic of international expansion. Kind of earlier this year, you cited a optimism for the opportunity in the Swiss wealth market following the Octagon acquisition. So first off, at the time, it sounded as though this acquisition was expected to open up the opportunity set for you guys in the country. So just curious, maybe one, on the progress on the efforts in the country here? And maybe two, why we haven't seen any acquisitions announced yet, since the initial entry? Any color there would be great.

Rudy Adolf
Yeah, so on Octagon, quite frankly, are very pleased with what we have seen. In fact, we're very exciting announcements about new hires and other activities that subsequently happened and we were, of course, collaborating with the leadership of Octagon. So we really like what we see. You will hear more about this in the not-to-far future.

And, quite frankly, we closed this thing only July 1st, so give us a little bit of time. But, our position and -- on the opportunity and, specifically the Swiss market, but quite frankly, also other international markets continues to be very positive. To the question before, about does the dollar help? Yeah, de facto, it does. But one step at a time. We are very strategic and we love what we see, with Octagon. Yes, there will be more, but let's focus on making Octagon as successful as can be.

Matt Moon
Totally fair. And then for Jim, more of a clarifying question, just on -- bringing it back to the performance fee question. But did I catch that the -- that you were saying that was the one forthcoming would be similar in size to the one last year, of that $20 million? And then, if you could just kind of remind us, just the margin on those fees. I believe it's significantly higher, if not in or around 50%. But, yeah if you could kind of flush out those details.

Jim Shanahan
Yeah, the estimate is plus or minus $15 million of revenue. And maybe plus or minus 50% margin on this type of transaction. But that's an estimate as of today. We'll see what actually comes to fruition when it's closed.

Matt Moon
Okay. Great. Thank you guys.

Operator
And our next question comes from the line of Owen Lau of Oppenheimer. Please proceed with your question.

Owen Lau

Good morning and thank you for taking my question. Thank you for updated revenue and adjusted EBITDA quote guidance for this year. Could you please also comment on your longer-term, 2025 target, as well? Is there any change of your longer-term revenue growth and adjusted EBITDA margin alloc (ph)? Thank you.

Rudy Adolf
Yeah, Owen, that's obviously a very important question. We -- when we did our investor day in December, when updated our focus 2025 numbers, it obviously was in a different economic world, with different outlook than what we are living through today. But I think I've said it before, for every 2020, there's a 2021. So, we don't know when there is -- a turnaround from a market perspective.

Assuming it comes within this 2025 momentum, over other period, this momentum will be very helpful, of course, to get us towards 2025. At this point, Jim and I don't really think we should update these numbers. Of course, if you expect the other markets in the macro environment to remain as challenging as it is, or maybe even get more challenging for some period of time, then 2025 would not be possible. But reality is it will turn around. It's a question of when.

And as we have demonstrated in '21, as we have demonstrated, yeah, really throughout all the crises that we have been lived through since 2006, our industry suffers much less than anybody else, which we of course demonstrating with our results, in the wealth-management space. And so does Focus. And when there's the turnaround, you see just an enormous acceleration of industry growth, by 60 and 70% versus normal.

And, of course, we are huge beneficiary in our dynamics are at least as good as what the industry does. So, no update to 2025 at this point. It's a question of when we see a normalization. If there is a normalization, then quite frankly, '25 is absolutely doable. If not, it could get pushed out by some years.

Owen Lau
Yeah, and that's helpful. My follow-up is, I may have missed that, but can you please give us an update on the cash and credit program? And in particular, in these high rates -- high interest rate environment, is any high -- let's say high-use savings product that you can offer to your clients? Thank you.

Rudy Adolf
Yeah, actually, we have a very successful program that we announced, I think about a year, ago, which is a bank sweep program that basically is FDIC insured, up to 50, actually up to $100 million, actually I don't know what the current rates are, but they are very attractive. And, basically, yeah, there's definitely a significant interest. Yeah, cash is kind right now and being able to provide such a scaled, sophisticated sweep program is, quite frankly, very, very powerful and differentiating, because, yeah, the traditional cash solutions that you can get in the market from the custodians is, obviously, significantly lower than what these programs provide.

So it is one of the services that we are offering and I'll get you the rates. I just don't know the latest. The -- from a credit perspective, you know, the re-fi market, yeah, of course, yeah, is kind of very weak, is kind of non-existent. But that was really never the emphasis of what our credit program was about. It was always really sophisticated lending solutions for -- could be business lending, it could be planes, yachts, art collections, just complex, high-end lending, where it is really ultimately lending money to people who don't' really money.

It's much more often liquidity solutions. And a liquidity solution, then you are in the -- or an estate planning solution. But when you're in the current market environment, is actually very, very powerful. So it is an important part of the advisory mix that we can offer to our clients. We think it is very differentiating. There is nobody with the level of purchasing power that we have. And, we, quite frankly see significant growth in this area for years to come.

Owen Lau
Got it. Thank you, Rudy.

Operator
And our next question comes from the line of Patrick O'Shaughnessy with Ramond James. Pleas proceed with your question.

Patrick O'Shaughnessy
Hey, good morning. How committed are guys to a net debt to EBITDA threshold of 4.5 times?

Rudy Adolf
Well, Jim and I have always been very clear that we believe that this is the right range, that -- for us. It's not a covenant issue, as we disclosed our covenants of 6.25, so quite frankly, we got signification flexibility above it. But we believe in the current market environment and the -- with the dynamics, that this is the right ratio.

I mentioned before, Pat, that given the attractiveness of the M&A market, many of our transactions are really not adding to our leverage, so that gives us significant flexibility. And really also aligns the interest of our future partners and focus in a stronger way. So, that's a very helpful dynamic. We disclosed $345 million of TPA is just cash generation, so there's just enormous cash.

So, yeah, we remain committed. Now, yes, if there was some massive market correction and suddenly, yeah, we would be below that ratio, that of course could happen. You see what we have in our credit disclosure in the -- exibits -- page 24, but that would be just momentarily and, of course, we would manage it accordingly.

But strategically, fundamentally, 3.5, 4.5 is the right ratio. This is how we are running our M&A business, which we can control. And we believe it -- with the cash generation that we have, it allows us to have a very successful M&A year, again, in '23.

Patrick O'Shaughnessy
Got it. Appreciate that. And then, Jim, the contingent consideration balance of $189.2 million, that saw a $12.6 million increase this quarter from an assumed, estimated, contingent consideration. Does that mean that you bought an entity that had its own contingent consideration at the time of the purchase?

Jim Shanahan
That's correct.

Patrick O'Shaughnessy
Okay. Great. Thank you very much.

Operator
And we have reached the end of the question-and-answer session. I will now turn the call back over to Rudy for closing remarks. Rudy?

Rudy Adolf
Thank you. In closing, we are very pleased with how our business is performing and how well our partner firms continue to navigate the difficult market backdrop. It is in environments like this, when we -- when the value of what they do really shows, positioning them for strong growth and financial performance, as markets recover. Based on the secular tailwinds driving industry consolidation and are not market dependent, in the industry opportunity remains substantial and is growing.

We are remaining nimble and extremely disciplined in our capital deployment. We have a robust pipeline and are taking advantage of the current environment to execute on the transactions that we believe will deliver significant upside in the future. Our strong fundamentals and high cash flow generation continue to demonstrate the resiliency of our business, reflecting the benefits of our revenue diversification, variable cost base, and our structural earnings preference.

We are confident in on our ability to capitalize on the substantial future growth opportunity of business. Our partnership is highly differentiated and would be very difficult to replicate and we operate within a growing industry, with very attractive characteristics. Together, these elements position us to deliver superior value to our shareholders, over the long term. Thank you all for your interest.

Operator
And this concludes today's conference and you may disconnect your lines at this time. Thank you for your participation.