



# Focus Financial Partners Reports First Quarter 2023 Results

## *Resilient Financial Performance and Strong M&A Momentum Despite Challenging Macro Environment*

**NEW YORK, NY / ACCESSWIRE / May 4, 2023** / Focus Financial Partners Inc. (NASDAQ:FOCS) ("Focus Inc.", "Focus", the "Company", "we", "us" or "our"), a leading partnership of independent, fiduciary wealth management firms, today reported results for its first quarter ended March 31, 2023.

### **First Quarter 2023 Highlights**

- Total revenues of \$557.5 million, 3.9% growth year over year
- Organic revenue growth<sup>(1)</sup> rate of 0.3% year over year
- GAAP net loss of (\$7.0) million
- GAAP basic and diluted loss per share of Class A common stock of (\$0.01) and (\$0.22), respectively
- Adjusted Net Income Excluding Tax Adjustments<sup>(2)</sup> of \$60.1 million and Tax Adjustments<sup>(3)</sup> of \$17.4 million
- Adjusted Net Income Excluding Tax Adjustments Per Share<sup>(2)</sup> of \$0.69 and Tax Adjustments<sup>(3)</sup> Per Share<sup>(2)</sup> of \$0.20
- Net Leverage Ratio<sup>(4)</sup> of 4.41x
- On February 27, 2023, entered into an Agreement and Plan of Merger (the "Merger Agreement") with affiliates of Clayton, Dubilier & Rice, LLC ("CD&R") to be acquired by CD&R in an all-cash transaction

1. Please see footnote 2 under "How We Evaluate Our Business" later in this press release.
2. Non-GAAP financial measures. Please see "Reconciliation of Non-GAAP Financial Measures" later in this press release for a reconciliation and more information on these measures.
3. Please see footnote 6 under "How We Evaluate Our Business" later in this press release.
4. Please see footnote 7 under "How We Evaluate Our Business" later in this press release.

"Our first quarter 2023 results reflected the resiliency of our business despite the challenging macro backdrop," said Rudy Adolf, Founder, CEO and Chairman of Focus. "Our partners delivered excellent service to their clients and managed their businesses well, remaining agile during the quarter. They also continued to take advantage of our value-added programs, designed to give them an edge in meeting their clients' growing demand for highly personalized advice and services. Our global partnership creates a number of scale advantages, reinforcing the sustainability of our growth over the long term."

"While slightly below our expectations, our first quarter performance benefitted from our diverse, recurring revenue stream, variable management fee structure, and the economic alignment we have with our partners," said Jim Shanahan, Chief Financial Officer of Focus. "Our Q1 M&A activity

reflected strong momentum, with twelve closed transactions, including one new partner firm and eleven mergers. Our differentiated ability to source, structure, and execute these transactions is a core element of our value proposition to growth-oriented firms. We are executing well, and we remain confident that we are well-positioned to capitalize on our industry's substantial forward growth opportunity."

### **First Quarter 2023 Financial Highlights**

Total revenues were \$557.5 million, 3.9%, or \$20.9 million higher than the 2022 first quarter. The increase was primarily attributable to \$19.2 million of revenues from new partner firms acquired during the last twelve months. Our year-over-year organic revenue growth rate<sup>(1)</sup> was 0.3%, marginally lower than our estimated range for the quarter due to lower than anticipated non-market correlated revenues.

An estimated 74.6%, or \$415.9 million, of total revenues in the quarter were correlated to the financial markets. Of this amount, 64.8%, or \$269.7 million, were generated from advance billings generally based on market levels in the 2022 fourth quarter. The remaining 25.4%, or \$141.6 million, were not correlated to the markets. These revenues typically consist of family office type services, tax advice and fixed fees for investment advice, primarily for high and ultra-high net worth clients.

GAAP net loss was (\$7.0) million compared to net income of \$39.1 million in the prior year quarter. GAAP basic and diluted loss per share of Class A common stock was (\$0.01) and (\$0.22), respectively, as compared to \$0.45 and \$0.44 for basic and diluted income per share of Class A common stock, respectively, in the prior year quarter.

Adjusted EBITDA<sup>(2)</sup> was \$132.5 million, (1.9)%, or (\$2.6) million, lower than the prior year period. Our Adjusted EBITDA margin<sup>(3)</sup> was 23.8%, marginally below our outlook of approximately 24% for the quarter.

Adjusted Net Income Excluding Tax Adjustments<sup>(2)</sup> was \$60.1 million, and Tax Adjustments<sup>(4)</sup> was \$17.4 million. Adjusted Net Income Excluding Tax Adjustments Per Share<sup>(2)</sup> was \$0.69, down (29.6)% compared to the prior year period reflecting the effect of higher interest expense on our borrowings. Tax Adjustments Per Share<sup>(2)</sup> was \$0.20, up 11.1% compared to the prior year period reflecting the tax efficiency of our acquisition activity associated with the high M&A transaction volume we sustained during this period.

1. Please see footnote 2 under "How We Evaluate Our Business" later in this press release.
2. Non-GAAP financial measures. Please see "Reconciliation of Non-GAAP Financial Measures" later in this press release for a reconciliation and more information on these measures.
3. Calculated as Adjusted EBITDA divided by Revenues.
4. Please see footnote 6 under "How We Evaluate Our Business" later in this press release.

### **Balance Sheet and Liquidity**

As of March 31, 2023, cash and cash equivalents were \$100.2 million and debt outstanding under our credit facilities was approximately \$2.7 billion.

Our Net Leverage Ratio<sup>(1)</sup> as of March 31, 2023 was 4.41x. We remain committed to maintaining our Net Leverage Ratio<sup>(1)</sup> between 3.5x to 4.5x and believe this is the appropriate range for our business given our highly acquisitive nature.

As of March 31, 2023, \$850 million, or 32.0%, of our debt outstanding under our credit facilities had SOFR swapped from a floating rate to a fixed weighted average interest rate of 53 basis points plus a spread of 325 basis points. The residual amount of approximately \$1.8 billion remains at floating rates, with \$906.3 million at an interest rate of SOFR (subject to a 50 basis point floor) plus 250 basis points spread, and \$901.2 million at an interest rate of SOFR (subject to a 50 basis point floor) plus 325 basis points spread. We typically use 30-day Term SOFR for our term loans.

Our net cash provided by operating activities for the trailing four quarters ended March 31, 2023 was \$290.0 million compared to \$275.1 million for the comparable prior year period. Our Cash Flow Available for Capital Allocation<sup>(2)</sup> for the trailing four quarters ended March 31, 2023 was \$303.9 million compared to \$299.6 million for the comparable prior year period. In the 2023 first quarter, we paid \$26.1 million in cash earn-out obligations and \$6.5 million of required amortization under our First Lien Term Loans.

1. Please see footnote 7 under "How We Evaluate Our Business" later in this press release.
2. Non-GAAP financial measure. See "Reconciliation of Non-GAAP Financial Measures-Cash Flow Available for Capital Allocation" later in this press release.

### **The Merger**

On February 27, 2023, Focus Inc. entered into the Merger Agreement for Focus to be acquired by affiliates of CD&R in an all-cash transaction (the "Merger"). Funds managed by Stone Point Capital LLC ("Stone Point") will retain a portion of their investment in Focus and provide new equity financing as part of the Merger. If the Merger is consummated, Focus will cease to be publicly-traded. Completion of the Merger is subject to customary closing conditions, including approval by holders of a majority of the shares held by the shareholders other than CD&R, Stone Point and certain affiliates. The Merger is expected to close in the third quarter of 2023. However, the Company cannot assure completion of the Merger by any particular date, if at all or that, if completed, it will be completed on the terms set forth in the Merger Agreement. For more information see Current Report on Form 8-K filed on February 28, 2023.

### **Teleconference, Webcast and Presentation Information**

Founder, CEO and Chairman, Rudy Adolf, and Chief Financial Officer, Jim Shanahan, will host a conference call today, May 4, 2023 at 8:30 a.m. Eastern Time to discuss the Company's 2023 first quarter results and outlook. The call can be accessed by dialing +1-800-285-6670 (callers inside the U.S.) or +1-713-481-1320 (callers outside the U.S.).

A live, listen-only webcast, together with a slide presentation titled "First Quarter 2023 Earnings Release Supplement" dated May 4, 2023, will be available under Events in the Investor Relations section of the Company's website, [www.focusfinancialpartners.com](http://www.focusfinancialpartners.com). A webcast replay of the call will be available shortly after the event at the same address. Registration for the call will begin 15 minutes prior to the start of the call, using the following [link](#).

Due to the pending Merger, we do not intend to take questions after the prepared remarks.

### **About Focus Financial Partners Inc.**

Focus Financial Partners Inc. is a leading partnership of independent, fiduciary wealth management firms. Focus provides access to best practices, resources, and continuity planning for its partner firms who serve individuals, families, employers and institutions with comprehensive wealth management services. Focus partner firms maintain their operational independence, while they benefit from the synergies, scale, economics and best practices offered by Focus to achieve their business objectives.

### Cautionary Note Concerning Forward-Looking Statements

The foregoing information contains certain forward-looking statements that reflect the Company's current views with respect to certain current and future events, including with respect to the Merger and the expected timing of closing of the Merger, and financial performance. These forward-looking statements are and will be, as the case may be, subject to many risks, uncertainties and factors, including relating to the Company's operations and business environment, which may cause the Company's actual results to be materially different from any future results, expressed or implied, in these forward-looking statements. Any forward-looking statements in this release are based upon information available to the Company on the date of this release. The Company does not undertake to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any statements expressed or implied therein will not be realized. Additional information on risk factors that could potentially affect the Company's financial results may be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 filed and our other filings with the Securities and Exchange Commission.

### Investor and Media Contacts

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### How We Evaluate Our Business

We focus on several key financial metrics in evaluating the success of our business, the success of our partner firms and our resulting financial position and operating performance. Key metrics for the three months ended March 31, 2022 and 2023 include the following:

|   | <b>Three Months Ended</b>                            |             |
|---|--|-------------|
|   | <b>March 31,</b>                                     |             |
|   | <b>2022</b>  | <b>2023</b> |
|   | <b>(dollars in thousands, except per share data)</b> |             |
| <b>Revenue Metrics:</b>                             |  |             |
| Revenues  | \$ 536,567   | \$ 557,507  |
| Revenue growth (1) from prior period                | 36.1 %   | 3.9 %       |
| Organic revenue growth (2) from prior period        | 22.0 %   | 0.3 %       |
| <b>Management Fees Metrics (operating expense):</b> |  |             |
| Management fees                                     | \$ 137,839   | \$ 124,594  |
| Management fees growth (3) from prior period        | 35.0 %   | (9.6 %)     |
| Organic management fees growth (4)                  |  |             |
| from prior period                                   | 21.6 %   | (11.1 %)    |

**Net Income (loss) Metrics:**

|   |           |             |
|---|-----------|-------------|
| Net income (loss)   | \$ 39,082 | \$ (6,977 ) |
| Net income (loss) growth from prior period                                | *         | *           |
| Income (loss) per share of Class A common stock:                          |           |             |
| Basic   | \$ 0.45   | \$ (0.01 )  |
| Diluted   | \$ 0.44   | \$ (0.22 )  |
| Income (loss) per share of Class A common stock growth from prior period: |           |             |
| Basic   | *         | *           |
| Diluted   | *         | *           |

**Adjusted EBITDA Metrics:**

|  |            |              |
|--|------------|--------------|
| Adjusted EBITDA (5)                          | \$ 135,080 | \$ 132,518 ) |
| Adjusted EBITDA growth (5) from prior period | 33.7 %     | (1.9 %)      |

**Adjusted Net Income Excluding Tax Adjustments Metrics:**

|  |           |             |
|--|-----------|-------------|
| Adjusted Net Income Excluding Tax Adjustments (5)                          | \$ 83,073 | \$ 60,124 ) |
| Adjusted Net Income Excluding Tax Adjustments growth (5) from prior period | 30.9 %    | (27.6 %)    |

**Tax Adjustments**

|   |           |           |
|---|-----------|-----------|
| Tax Adjustments (5)(6)                          | \$ 14,813 | \$ 17,378 |
| Tax Adjustments growth from prior period (5)(6) | 41.2 %    | 17.3 %    |

**Three Months Ended****March 31,**

| 2022 | 2023 |
|------|------|
|------|------|

**(dollars in thousands, except per share data)****Adjusted Net Income Excluding Tax Adjustments Per Share and Tax Adjustments Per Share Metrics:**

|  |         |          |
|--|---------|----------|
| Adjusted Net Income Excluding Tax Adjustments Per Share (5)                          | \$ 0.98 | \$ 0.69  |
| Tax Adjustments Per Share (5)(6)   | \$ 0.18 | \$ 0.20  |
| Adjusted Net Income Excluding Tax Adjustments Per Share growth (5) from prior period | 22.5 %  | (29.6 %) |
| Tax Adjustments Per Share growth from prior period (5)(6)                            | 38.5 %  | 11.1 %   |

**Adjusted Shares Outstanding**

|                                 |            |            |
|---------------------------------|------------|------------|
| Adjusted Shares Outstanding (5) | 84,579,820 | 86,844,405 |
|---------------------------------|------------|------------|

**Other Metrics:**

|   |    |        |    |        |
|---|----|--------|----|--------|
| Net Leverage Ratio (7) at period end      |    | 3.84 x |    | 4.41 x |
| Acquired Base Earnings (8)                | \$ | -      | \$ | 1,731  |
| Number of partner firms at period end (9) |    | 84     |    | 89     |

\* Not meaningful

1. Represents period-over-period growth in our GAAP revenue.
2. Organic revenue growth represents the period-over-period growth in revenue related to partner firms, including growth related to acquisitions of wealth management practices and customer relationships by our partner firms, including Connectus, and partner firms that have merged, that for the entire periods presented, are included in our consolidated statements of operations for each of the entire periods presented. We believe these growth statistics are useful in that they present full-period revenue growth of partner firms on a "same store" basis exclusive of the effect of the partial period results of partner firms that are acquired during the comparable periods.
3. The terms of our management agreements entitle the management companies to management fees typically consisting of all Earnings Before Partner Compensation ("EBPC") in excess of Base Earnings up to Target Earnings, plus a percentage of any EBPC in excess of Target Earnings. Management fees growth represents the period-over-period growth in GAAP management fees earned by management companies. While an expense, we believe that growth in management fees reflect the strength of the partnership.
4. Organic management fees growth represents the period-over-period growth in management fees earned by management companies related to partner firms, including growth related to acquisitions of wealth management practices and customer relationships by our partner firms and partner firms that have merged, that for the entire periods presented, are included in our consolidated statements of operations for each of the entire periods presented. We believe that these growth statistics are useful in that they present full-period growth of management fees on a "same store" basis exclusive of the effect of the partial period results of partner firms that are acquired during the comparable periods.
5. For additional information regarding Adjusted EBITDA, Adjusted Net Income Excluding Tax Adjustments, Adjusted Net Income Excluding Tax Adjustments Per Share, Tax Adjustments, Tax Adjustments Per Share and Adjusted Shares Outstanding, including a reconciliation of Adjusted EBITDA, Adjusted Net Income Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments Per Share to the most directly comparable GAAP financial measure, please read "-Adjusted EBITDA" and "-Adjusted Net Income Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments Per Share."
6. Tax Adjustments represent the tax benefits of intangible assets, including goodwill, associated with deductions allowed for tax amortization of intangible assets in the respective periods based on a pro forma 27% income tax rate. Such amounts were generated from acquisitions completed where we received a step-up in basis for tax purposes. Acquired intangible assets may be amortized for tax purposes, generally over a 15-year period. Due to our acquisitive nature, tax deductions allowed on acquired intangible assets provide additional significant supplemental economic benefit. The tax benefit from amortization is included to show the full economic benefit of deductions for acquired intangible assets with the step-up in tax basis. As of March 31, 2023, estimated Tax Adjustments from intangible asset related income tax benefits from closed acquisitions based on a pro forma 27% income tax rate for the next 12 months is \$69.6 million.



7. Net Leverage Ratio represents the First Lien Leverage Ratio (as defined in the Credit Facility), and means the ratio of amounts outstanding under the First Lien Term Loan A, First Lien Term Loan B and First Lien Revolver plus other outstanding debt obligations secured by a lien on the assets of Focus LLC (excluding letters of credit other than unpaid drawings thereunder) minus unrestricted cash and cash equivalents to Consolidated EBITDA (as defined in the Credit Facility).
8. The terms of our management agreements entitle the management companies to management fees typically consisting of all future EBPC of the acquired wealth management firm in excess of Base Earnings up to Target Earnings, plus a percentage of any EBPC in excess of Target Earnings. Acquired Base Earnings is equal to our preferred position in Base Earnings or comparable measures. We are entitled to receive these earnings notwithstanding any earnings that we are entitled to receive in excess of Target Earnings. Base Earnings may change in future periods for various business or contractual matters. For example, from time to time when a partner firm consummates an acquisition, the management agreement among the partner firm, the management company and the principals is amended to adjust Base Earnings and Target Earnings to reflect the projected post acquisition earnings of the partner firm.
9. Represents the number of partner firms on the last day of the period presented.

### Unaudited Condensed Consolidated Financial Statements

#### FOCUS FINANCIAL PARTNERS INC.

#### Unaudited Condensed Consolidated Statements of Operations (in thousands, except share and per share amounts)

|   | For the three months ended |            |
|---|----------------------------|------------|
|   | March 31,                  |            |
|   | 2022                       | 2023       |
| REVENUES:   |                            |            |
| Wealth management fees  | \$ 515,179                 | \$ 533,889 |
| Other   | 21,388                     | 23,618     |
| Total revenues  | 536,567                    | 557,507    |
| OPERATING EXPENSES:   |                            |            |
| Compensation and related expenses                                       | 181,800                    | 206,416    |
| Management fees   | 137,839                    | 124,594    |
| Selling, general and administrative                                     | 88,650                     | 112,816    |
| Intangible amortization   | 60,276                     | 71,786     |
| Non-cash changes in fair value of estimated<br>contingent consideration | (8,985 )                   | 16,488     |
| Depreciation and other amortization                                     | 3,633                      | 3,967      |
| Total operating expenses  | 463,213                    | 536,067    |
| INCOME FROM OPERATIONS  | 73,354                     | 21,440     |
| OTHER INCOME (EXPENSE):   |                            |            |
| Interest income   | 3                          | 464        |
| Interest expense  | (17,616 )                  | (43,929 )  |
| Amortization of debt financing costs                                    | (1,101 )                   | (1,105 )   |
| Other expense-net   | (36 )                      | (2,725 )   |

|                                       |                   |                   |
|---------------------------------------|-------------------|-------------------|
| Income from equity method investments | <u>95</u>         | <u>175</u>        |
| Total other expense-net               | <u>(18,655 )</u>  | <u>(47,120 )</u>  |
| INCOME (LOSS) BEFORE INCOME TAX       | 54,699            | (25,680 )         |
| INCOME TAX EXPENSE (BENEFIT)          | <u>15,617</u>     | <u>(18,703 )</u>  |
| NET INCOME (LOSS)                     | 39,082            | (6,977 )          |
| Non-controlling interest              | <u>(9,980 )</u>   | <u>6,345</u>      |
| NET INCOME (LOSS) ATTRIBUTABLE TO     |                   |                   |
| COMMON SHAREHOLDERS                   | <u>\$ 29,102</u>  | <u>\$ (632 )</u>  |
| Income (loss) per share of Class A    |                   |                   |
| common stock:                         |                   |                   |
| Basic                                 | <u>\$ 0.45</u>    | <u>\$ (0.01 )</u> |
| Diluted                               | <u>\$ 0.44</u>    | <u>\$ (0.22 )</u> |
| Weighted average shares of Class A    |                   |                   |
| common stock outstanding:             |                   |                   |
| Basic                                 | <u>65,331,370</u> | <u>65,940,004</u> |
| Diluted                               | <u>65,767,463</u> | <u>84,174,046</u> |

**FOCUS FINANCIAL PARTNERS INC.**  
**Unaudited Condensed Consolidated Balance Sheets**  
**(in thousands, except share and per share amounts)**

|  | <b>December<br/>31,<br/>2022</b> | <b>March 31,<br/>2023</b>  |
|--|----------------------------------|----------------------------|
| <b>ASSETS</b>  |                                  |                            |
| Cash and cash equivalents  | \$ 139,973                       | \$ 100,199                 |
| Accounts receivable less allowances of \$3,862 at 2022 and \$3,887 at 2023 | 217,219                          | 225,257                    |
| Prepaid expenses and other assets  | 151,356                          | 173,167                    |
| Fixed assets-net   | 54,748                           | 56,840                     |
| Operating lease assets   | 258,697                          | 268,783                    |
| Debt financing costs-net   | 7,590                            | 7,204                      |
| Deferred tax assets-net  | 230,130                          | 231,432                    |
| Goodwill   | 2,167,917                        | 2,213,019                  |
| Other intangible assets-net  | <u>1,639,124</u>                 | <u>1,749,829</u>           |
| <b>TOTAL ASSETS</b>  | <u><b>\$ 4,866,754</b></u>       | <u><b>\$ 5,025,730</b></u> |
| <b>LIABILITIES AND EQUITY</b>  |                                  |                            |
| <b>LIABILITIES</b>   |                                  |                            |
| Accounts payable   | \$ 12,213                        | \$ 15,100                  |
| Accrued expenses   | 80,679                           | 79,117                     |
| Due to affiliates  | 70,974                           | 21,920                     |
| Deferred revenue   | 10,726                           | 12,086                     |
| Contingent consideration and other liabilities                             | 335,033                          | 421,185                    |
| Deferred tax liabilities   | 29,579                           | 28,373                     |



|  |                            |                            |
|--|----------------------------|----------------------------|
| Operating lease liabilities  | 288,895                    | 301,237                    |
| Borrowings under credit facilities (stated value of \$2,563,970 and \$2,657,519 at December 31, 2022 and March 31, 2023, respectively)   | 2,510,749                  | 2,604,929                  |
| Tax receivable agreements obligations  | <u>224,611</u>             | <u>215,013</u>             |
| <b>TOTAL LIABILITIES</b>   | <u><b>3,563,459</b></u>    | <u><b>3,698,960</b></u>    |
| <b>EQUITY</b>  |                            |                            |
| Class A common stock, par value \$0.01, 500,000,000 shares authorized;<br>65,929,644 and 65,960,079 shares issued and outstanding at<br>December 31, 2022 and March 31, 2023, respectively | 659                        | 660                        |
| Class B common stock, par value \$0.01, 500,000,000 shares authorized;<br>11,827,321 and 12,540,262 shares issued and outstanding at<br>December 31, 2022 and March 31, 2023, respectively | 118                        | 125                        |
| Additional paid-in capital   | 918,044                    | 907,591                    |
| Retained earnings  | 116,779                    | 116,147                    |
| Accumulated other comprehensive income   | <u>18,318</u>              | <u>12,635</u>              |
| Total shareholders' equity   | 1,053,918                  | 1,037,158                  |
| Non-controlling interest   | <u>249,377</u>             | <u>289,612</u>             |
| Total equity   | <u>1,303,295</u>           | <u>1,326,770</u>           |
| <b>TOTAL LIABILITIES AND EQUITY</b>  | <u><b>\$ 4,866,754</b></u> | <u><b>\$ 5,025,730</b></u> |

**FOCUS FINANCIAL PARTNERS INC.**  
**Unaudited Condensed Consolidated Statements of Cash Flows**  
(in thousands)

|  | <b>For the three months ended</b> |                    |
|--|-----------------------------------|--------------------|
|  | <b>March 31,</b>                  |                    |
|  | <u><b>2022</b></u>                | <u><b>2023</b></u> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                                   |                    |
| Net income (loss)  | \$ 39,082                         | \$ (6,977 )        |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities-net of effect of acquisitions: |                                   |                    |
| Intangible amortization  | 60,276                            | 71,786             |
| Depreciation and other amortization  | 3,633                             | 3,967              |
| Amortization of debt financing costs   | 1,101                             | 1,105              |
| Non-cash equity compensation expense   | 6,707                             | 7,911              |
| Non-cash changes in fair value of estimated contingent consideration   | (8,985 )                          | 16,488             |
| Income from equity method investments  | (95 )                             | (175 )             |
| Distributions received from equity method investments  | 425                               | 327                |

|  |                   |                   |
|--|-------------------|-------------------|
| Deferred taxes and other non-cash items                                      | 6,424             | (2,231 )          |
| Changes in cash resulting from changes in operating assets and liabilities:  |                   |                   |
| Accounts receivable  | (10,478 )         | (8,098 )          |
| Prepaid expenses and other assets  | (12,827 )         | (32,427 )         |
| Accounts payable   | 3,081             | 2,883             |
| Accrued expenses   | 4,721             | (1,253 )          |
| Due to affiliates  | (76,997 )         | (49,101 )         |
| Contingent consideration and other liabilities                               | (22,520 )         | (8,102 )          |
| Deferred revenue   | <u>1,810</u>      | <u>669</u>        |
| Net cash used in operating activities  | <u>(4,642 )</u>   | <u>(3,228 )</u>   |
| CASH FLOWS FROM INVESTING ACTIVITIES:  |                   |                   |
| Cash paid for acquisitions and contingent consideration-net of cash acquired | (2,603 )          | (84,708 )         |
| Purchase of fixed assets   | (3,232 )          | (5,609 )          |
| Investments and other, net   | <u>(5,232 )</u>   | <u>-</u>          |
| Net cash used in investing activities  | <u>(11,067 )</u>  | <u>(90,317 )</u>  |
| CASH FLOWS FROM FINANCING ACTIVITIES:  |                   |                   |
| Borrowings under credit facilities   | 50,000            | 98,500            |
| Repayments of borrowings under credit facilities                             | (6,174 )          | (6,451 )          |
| Payments in connection with tax receivable agreements                        | (3,856 )          | (9,598 )          |
| Contingent consideration paid  | (10,443 )         | (14,815 )         |
| Payments of deferred cash consideration                                      | -                 | (12,505 )         |
| Proceeds from exercise of stock options                                      | 422               | 1,005             |
| Equity awards withholding  | -                 | (704 )            |
| Distributions for unitholders  | <u>(8,209 )</u>   | <u>(1,531 )</u>   |
| Net cash provided by financing activities                                    | <u>21,740</u>     | <u>53,901</u>     |
| EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS                        | <u>319</u>        | <u>(130 )</u>     |
| CHANGE IN CASH AND CASH EQUIVALENTS  | 6,350             | (39,774 )         |
| CASH AND CASH EQUIVALENTS:   |                   |                   |
| Beginning of period  | <u>310,684</u>    | <u>139,973</u>    |
| End of period  | <u>\$ 317,034</u> | <u>\$ 100,199</u> |

## Reconciliation of Non-GAAP Financial Measures

### Adjusted EBITDA

Adjusted EBITDA is a non-GAAP measure. Adjusted EBITDA is defined as net income (loss) excluding interest income, interest expense, income tax expense (benefit), amortization of debt financing costs, intangible amortization and impairments, if any, depreciation and other amortization, non-cash equity compensation expense, non-cash changes in fair value of estimated contingent consideration, other expense-net and Merger-related expenses, if any. We believe that Adjusted EBITDA, viewed in addition to and not in lieu of, our reported GAAP results, provides

additional useful information to investors regarding our performance and overall results of operations for various reasons, including the following:

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

We use Adjusted EBITDA:

- as a measure of operating performance;
- for planning purposes, including the preparation of budgets and forecasts;
- to allocate resources to enhance the financial performance of our business;
- to evaluate the effectiveness of our business strategies; and
- as a consideration in determining compensation for certain employees.

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

- Adjusted EBITDA does not reflect all cash expenditures, future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, working capital needs; and
- Adjusted EBITDA does not reflect the interest expense on our debt or the cash requirements necessary to service interest or principal payments.

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

Set forth below is a reconciliation of net income (loss) to Adjusted EBITDA for the three months ended March 31, 2022 and 2023:

|                   | <b>Three Months Ended</b> |             |
|-------------------|---------------------------|-------------|
|                   | <b>March 31,</b>          |             |
|                   | <b>2022</b>               | <b>2023</b> |
|                   | <b>(in thousands)</b>     |             |
| Net income (loss) | \$ 39,082                 | \$ (6,977 ) |
| Interest income   | (3 )                      | (464 )      |

|   |                   |                   |
|---|-------------------|-------------------|
| Interest expense  | 17,616            | 43,929            |
| Income tax expense (benefit)  | 15,617            | (18,703 )         |
| Amortization of debt financing costs                                    | 1,101             | 1,105             |
| Intangible amortization   | 60,276            | 71,786            |
| Depreciation and other amortization                                     | 3,633             | 3,967             |
| Non-cash equity compensation expense                                    | 6,707             | 7,911             |
| Non-cash changes in fair value of estimated<br>contingent consideration | (8,985 )          | 16,488            |
| Other expense-net   | 36                | 2,725             |
| Merger-related expenses (1)   | -                 | 10,751            |
| <b>Adjusted EBITDA</b>  | <b>\$ 135,080</b> | <b>\$ 132,518</b> |

1. Represents costs incurred in conjunction with the Merger Agreement entered into on February 27, 2023. Refer to our SEC filings for additional information.

### ***Adjusted Net Income Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments Per Share***

We analyze our performance using Adjusted Net Income Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments Per Share. Adjusted Net Income Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments Per Share are non-GAAP measures. We define Adjusted Net Income Excluding Tax Adjustments as net income (loss) excluding income tax expense (benefit), amortization of debt financing costs, intangible amortization and impairments, if any, non-cash equity compensation expense, non-cash changes in fair value of estimated contingent consideration, and Merger-related expenses, if any. The calculation of Adjusted Net Income Excluding Tax Adjustments also includes adjustments to reflect a pro forma 27% income tax rate reflecting the estimated U.S. federal, state, local and foreign income tax rates applicable to corporations in the jurisdictions we conduct business and is used for comparative purposes. The actual effective income tax rate, in current or future periods, may differ significantly from the pro forma income tax rate of 27%.

Adjusted Net Income Excluding Tax Adjustments Per Share is calculated by dividing Adjusted Net Income Excluding Tax Adjustments by the Adjusted Shares Outstanding. Adjusted Shares Outstanding includes: (i) the weighted average shares of Class A common stock outstanding during the periods, (ii) the weighted average incremental shares of Class A common stock related to stock options and restricted stock units outstanding during the periods, (iii) the weighted average number of Focus LLC common units outstanding during the periods (assuming that 100% of such Focus LLC common units, including contingently issuable Focus LLC common units, if any, have been exchanged for Class A common stock), (iv) the weighted average number of Focus LLC restricted common units outstanding during the periods (assuming that 100% of such Focus LLC restricted common units have been exchanged for Class A common stock) and (v) the weighted average number of common unit equivalents of Focus LLC vested and unvested incentive units outstanding during the periods based on the closing price of our Class A common stock on the last trading day of the periods (assuming that 100% of such Focus LLC common units have been exchanged for Class A common stock).

We believe that Adjusted Net Income Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments Per Share, viewed in addition to and not in lieu of, our reported GAAP

results, provide additional useful information to investors regarding our performance and overall results of operations for various reasons, including the following:

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

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

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

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

#### ***Tax Adjustments and Tax Adjustments Per Share***

Tax Adjustments represent the tax benefits of intangible assets, including goodwill, associated with deductions allowed for tax amortization of intangible assets in the respective periods based on a pro forma 27% income tax rate. Such amounts were generated from acquisitions completed where we received a step-up in basis for tax purposes. Acquired intangible assets may be amortized for tax purposes, generally over a 15-year period. Due to our acquisitive nature, tax deductions allowed on acquired intangible assets provide additional significant supplemental economic benefit. The tax

benefit from amortization is included to show the full economic benefit of deductions for acquired intangible assets with the step-up in tax basis.

Tax Adjustments Per Share is calculated by dividing Tax Adjustments by the Adjusted Shares Outstanding.

Set forth below is a reconciliation of net income (loss) to Adjusted Net Income Excluding Tax Adjustments and Adjusted Net Income Excluding Tax Adjustments Per Share for the three months ended March 31, 2022 and 2023:

|   | <b>Three Months Ended</b>                            |                   |
|---|--|-------------------|
|   | <b>March 31,</b>                                     |                   |
|   | <b>2022</b>  | <b>2023</b>       |
|   | <b>(dollars in thousands, except per share data)</b> |                   |
| Net income (loss)   | \$ 39,082  | \$ (6,977 )       |
| Income tax expense (benefit)  | 15,617   | (18,703 )         |
| Amortization of debt financing costs  | 1,101  | 1,105             |
| Intangible amortization   | 60,276   | 71,786            |
| Non-cash equity compensation expense  | 6,707  | 7,911             |
| Non-cash changes in fair value of estimated<br>contingent consideration   | (8,985 )   | 16,488            |
| Merger-related expenses (1)   | -  | 10,751            |
| Subtotal  | 113,798  | 82,361            |
| Pro forma income tax expense (27%) (2)  | (30,725 )  | (22,237 )         |
| Adjusted Net Income Excluding Tax Adjustments   | <u>\$ 83,073</u>                                     | <u>\$ 60,124</u>  |
| Tax Adjustments (3)   | <u>\$ 14,813</u>                                     | <u>\$ 17,378</u>  |
| Adjusted Net Income Excluding Tax Adjustments Per Share   | <u>\$ 0.98</u>                                       | <u>\$ 0.69</u>    |
| Tax Adjustments Per Share (3)   | <u>\$ 0.18</u>                                       | <u>\$ 0.20</u>    |
| Adjusted Shares Outstanding   | <u>84,579,820</u>                                    | <u>86,844,405</u> |
| Calculation of Adjusted Shares Outstanding:   |  |                   |
| Weighted average shares of Class A common<br>stock outstanding-basic (4)  | <u>65,331,370</u>                                    | <u>65,940,004</u> |
| Adjustments:  |  |                   |
| Weighted average incremental shares of<br>Class A common stock related to stock<br>options and restricted stock units (5) | 436,093  | 443,542           |
| Weighted average Focus LLC common units<br>outstanding (6)  | 11,621,814   | 12,072,890        |
| Weighted average Focus LLC restricted<br>common units outstanding (7)   | 193,625  | 296,548           |



|  |                          |                          |
|--|--------------------------|--------------------------|
| Weighted average common unit equivalent of |                          |                          |
| Focus LLC incentive units outstanding (8)  | <u>6,996,918</u>         | <u>8,091,421</u>         |
| Adjusted Shares Outstanding                | <u><u>84,579,820</u></u> | <u><u>86,844,405</u></u> |

1. Represents costs incurred in conjunction with the Merger Agreement entered into on February 27, 2023. Refer to our SEC filings for additional information.
2. The pro forma income tax rate of 27% reflects the estimated U.S. federal, state, local and foreign income tax rates applicable to corporations in the jurisdictions we conduct business and is used for comparative purposes. The actual effective income tax rate, in current or future periods, may differ significantly from the pro forma income tax rate of 27%. The actual effective income tax rate is the percentage of income tax after taking into consideration various tax deductions, credits and limitations. Among other things, periods of increased interest expense and limits on our ability to deduct interest expense may, in current or future periods, contribute to an actual effective income tax rate that is less than or greater than the pro forma income tax rate of 27%.
3. Tax Adjustments represent the tax benefits of intangible assets, including goodwill, associated with deductions allowed for tax amortization of intangible assets in the respective periods based on a pro forma 27% income tax rate. Such amounts were generated from acquisitions completed where we received a step-up in basis for tax purposes. Acquired intangible assets may be amortized for tax purposes, generally over a 15-year period. Due to our acquisitive nature, tax deductions allowed on acquired intangible assets provide additional significant supplemental economic benefit. The tax benefit from amortization is included to show the full economic benefit of deductions for acquired intangible assets with the step-up in tax basis. As of March 31, 2023, estimated Tax Adjustments from intangible asset related income tax benefits from closed acquisitions based on a pro forma 27% income tax rate for the next 12 months is \$69.6 million.
4. Represents our GAAP weighted average Class A common stock outstanding-basic.
5. Represents the incremental shares related to stock options and restricted stock units as calculated under the treasury stock method.
6. Assumes that 100% of the Focus LLC common units, including contingently issuable Focus LLC common units, if any, were exchanged for Class A common stock.
7. Assumes that 100% of the Focus LLC restricted common units were exchanged for Class A common stock.
8. Assumes that 100% of the vested and unvested Focus LLC incentive units were converted into Focus LLC common units based on the closing price of our Class A common stock at the end of the respective period and such Focus LLC common units were exchanged for Class A common stock.

### **Adjusted Free Cash Flow and Cash Flow Available for Capital Allocation**

To supplement our statements of cash flows presented on a GAAP basis, we use non-GAAP liquidity measures on a trailing 4-quarter basis to analyze cash flows generated from our operations. We consider Adjusted Free Cash Flow and Cash Flow Available for Capital Allocation to be liquidity measures that provide useful information to investors about the amount of cash generated by the business and are two factors in evaluating the amount of cash available to pay contingent consideration and deferred cash consideration, make strategic acquisitions and repay outstanding borrowings. Adjusted Free Cash Flow and Cash Flow Available for Capital Allocation do not represent our residual cash flow available for discretionary expenditures as they do not deduct our mandatory debt service requirements and other non-discretionary expenditures. We define Adjusted Free Cash Flow as net cash provided by operating activities, less purchase of fixed assets, distributions for Focus LLC unitholders and payments under tax receivable agreements. We define Cash Flow Available for Capital Allocation as Adjusted Free Cash Flow plus the portions of



contingent consideration and deferred cash consideration paid which are classified as operating cash flows under GAAP. The balances of such contingent consideration and deferred cash consideration are classified as investing or financing cash flows under GAAP; therefore, we add back the amounts included in operating cash flows so that the full amount of contingent consideration and deferred cash consideration payments are treated consistently. Adjusted Free Cash Flow and Cash Flow Available for Capital Allocation are not defined under GAAP and should not be considered as alternatives to net cash from operating, investing or financing activities. In addition, Adjusted Free Cash Flow and Cash Flow Available for Capital Allocation can differ significantly from company to company.

Set forth below is a reconciliation of net cash provided by operating activities to Adjusted Free Cash Flow and Cash Flow Available for Capital Allocation for the trailing 4-quarters ended March 31, 2022 and 2023:

|  | <b>Trailing 4-Quarters<br/>Ended<br/>March 31,</b> |                          |
|--|--|--------------------------|
|  | <b>2022</b>  | <b>2023</b>              |
|  | <b>(in thousands)</b>                              |                          |
| Net cash provided by operating activities  | \$ 275,148   | \$ 290,013               |
| Purchase of fixed assets   | (11,415 )  | (23,394 )                |
| Distributions for unitholders  | (31,465 )  | (16,306 )                |
| Payments under tax receivable agreements   | <u>(4,167 )</u>                                    | <u>(9,598 )</u>          |
| <b>Adjusted Free Cash Flow</b>   | <b>\$ 228,101</b>                                  | <b>\$ 240,715</b>        |
| Portion of contingent consideration paid included in operating activities (1)    | 71,508   | 62,835                   |
| Portion of deferred cash consideration paid included in operating activities (2) | <u>-</u>   | <u>304</u>               |
| <b>Cash Flow Available for Capital Allocation (3)</b>                            | <b><u>\$ 299,609</u></b>                           | <b><u>\$ 303,854</u></b> |

1. A portion of contingent consideration paid is classified as operating cash outflows in accordance with GAAP, with the balance reflected in investing or financing cash outflows. Contingent consideration paid classified as operating cash outflows for each of the trailing 4-quarters ended March 31, 2022 was \$11.6 million, \$20.4 million, \$16.4 million and \$23.1 million, respectively, totaling \$71.5 million for the trailing 4-quarters ended March 31, 2022. Contingent consideration paid classified as operating cash outflows for each of the trailing 4-quarters ended March 31, 2023 was \$18.2 million, \$29.5 million, \$6.1 million and \$9.0 million, respectively, totaling \$62.8 million for the trailing 4-quarters ended March 31, 2023.
2. A portion of deferred cash consideration paid is classified as operating cash outflows in accordance with GAAP, with the balance reflected in financing cash outflows. Deferred cash consideration paid and classified as operating cash outflows was \$0.3 million for the trailing 4-quarters ended March 31, 2023.
3. Cash Flow Available for Capital Allocation excludes all contingent consideration and deferred cash consideration that was included in either operating, investing or financing activities of our consolidated statements of cash flows.

## Supplemental Information

### Economic Ownership

The following table provides supplemental information regarding the economic ownership of Focus Financial Partners, LLC as of March 31, 2023:

| Economic Ownership of Focus Financial Partners, LLC Interests: | March 31, 2023    |               |
|--|-------------------|---------------|
|  | Interest          | %             |
| Focus Financial Partners Inc.                                  | 65,960,079        | 75.9%         |
| Non-Controlling Interests (1)                                  | 20,928,231        | 24.1%         |
| <b>Total</b>   | <b>86,888,310</b> | <b>100.0%</b> |

1. Includes 8,091,421 Focus LLC common units issuable upon conversion of the outstanding 16,602,886 vested and unvested incentive units (assuming vesting of the unvested incentive units and a March 31, 2023 period end value of the Focus LLC common units equal to \$51.87) and includes 296,548 Focus LLC restricted common units.

### Class A and Class B Common Stock Outstanding

The following table provides supplemental information regarding the Company's Class A and Class B common stock:

|         | Number of Shares Outstanding at<br>March 31, 2023 | Number of Shares Outstanding at<br>May 1, 2023 |
|---------|---|--|
| Class A | 65,960,079  | 66,009,979                                     |
| Class B | 12,540,262  | 12,540,262                                     |

### Incentive Units

The following table provides supplemental information regarding the outstanding Focus LLC vested and unvested Incentive Units ("IUs") at March 31, 2023. The vested IUs in future periods can be exchanged into shares of Class A common stock (after conversion into a number of Focus LLC common units that takes into account the then-current value of common units and such IUs aggregate hurdle amount), and therefore, the Company calculates the Class A common stock equivalent of such IUs for purposes of calculating per share data. The period-end share price of the Company's Class A common stock is used to calculate the intrinsic value of the outstanding Focus LLC IUs in order to calculate a Focus LLC common unit equivalent of the Focus LLC IUs.

| Hurdle<br>Rates | Number<br>Outstanding |
|-----------------|-----------------------|
| \$1.42          | 421                   |
| \$5.50          | 798                   |

|         |           |
|---------|-----------|
| \$6.00  | 386       |
| \$7.00  | 1,081     |
| \$9.00  | 708,107   |
| \$11.00 | 813,001   |
| \$12.00 | 513,043   |
| \$13.00 | 540,000   |
| \$14.00 | 10,098    |
| \$16.00 | 45,191    |
| \$17.00 | 20,000    |
| \$19.00 | 527,928   |
| \$21.00 | 3,017,692 |
| \$22.00 | 796,417   |
| \$23.00 | 524,828   |
| \$26.26 | 12,500    |
| \$27.00 | 12,484    |
| \$27.90 | 1,890,440 |
| \$28.50 | 1,424,225 |
| \$30.48 | 30,000    |

|         |             |
|---------|-------------|
| \$33.00 | 3,617,500   |
| \$36.64 | 30,000      |
| \$37.59 | 508,145     |
| \$43.07 | 60,000      |
| \$43.50 | 30,000      |
| \$44.71 | 806,324     |
| \$58.50 | 662,277     |
|         | <hr/>       |
|         | 16,602,886  |
|         | <hr/> <hr/> |

**SOURCE:** Focus Financial Partners Inc.

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