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PRESENTATION

Operator

Good morning. I would like to welcome everyone to the Focus Financial Partners 2019 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. After the speakers presentation, there will be a question-and-answer session. (Operator Instructions)

Mr. McGranahan, you may begin.

J. Russell McGranahan - *Focus Financial Partners Inc. - General Counsel & Corporate Secretary*

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 the focuses 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 was 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?

Ruediger Adolf - *Focus Financial Partners Inc. - Founder, CEO & Chairman*

Thanks, Rusty. Good morning, everyone, and thank you for joining our call. We appreciate your interest in Focus, we delivered excellent results in the third quarter off to see you're keeping a very strong first 9 months. For both periods, our business generated year-over-year growth, well above our 20% annual targets for revenues and adjusted net income per share.

We further increased our market share and drove revenues and earnings growth to industry-leading levels; we have an outstanding portfolio of partner firms that excel in client service and retention with over half of our firms already forming platforms for industry consolidation. Our portfolios of partner firms are making solid progress against our strategic initiatives, which are centered on building scale to accelerate revenue growth and ensure high client and principle retention. More of our partner firms also accelerating scale and grocery merger.

We are pleased with how well the subsequent integrations have gone as this is essential to achieving IRR seeing excess of 20%, based on our September 30, capital structure we estimate that the portfolio of firms that have been with us for at least 2 years has delivered a weighted average levered IRR of more than 25% since inception.

This same firm continue to sustain a weighted average revenue cable of more than 13%, reflecting a combination of solid growth for mergers into organic sources. Our scale of over $200 billion in client assets enables us to provide value to our partner firms across all elements of the businesses. We are engaged with them on a number of strategic hires, particularly next generation advisory and senior management talent.

We also working on more than 20 operational in technology enhancements defining new marketing and business development initiatives for over 20 firms and expanding our cash credit programs focus client solutions. Additionally, we are placing an emphasis on enhanced business intelligence and sharing of these practices. We have closed 34 deals year-to-date, taking advantage of an active M&A market.

Although the environment is increasingly competitive, we remained highly selective and maintain strong pricing discipline being year-to-date multiples the mid to high single-digit range, these deals in aggregate a generating earnings accretion of over 20%. We are pursuing a targeted strategy; it positions us to capitalize on industry consolidation through M&A and to grow our market share by enhancing the services, our partner firms of their clients. We are increasing our reach to highly attractive new partner firms who have the business profile to become leading platforms in the future.

So mergers, we are substantially accelerating the speed at which our partner firms can scale. We are also taking advantage of focus key and expertise to help our partner firms evolve via client service offerings. As leaders in the industry, our firm's ability to continually enhance the quality of the client experience, the offer is an important competitive differentiator. Taken together, we believe that these elements will drive shareholder value creation well into the future. This year, 6 new partner firms joined Focus, expanding our track record of acquiring excellent firms and expanding our position in this large high growth consolidating industry. The 3 largest transactions, Williams Jones, Escala and AGS added an estimated over 90 million in total revenues and 29.4 million in acquired based earnings on an annualized basis.

Prior to joining focus and therefore, prior to benefiting from our value-added services, they generated an average 3 year revenue CAGR from non-M&A related organic sources of more 10%. These firms are clear market leaders, enhancing our presence in New York and Florida with ultra-high net worth of artists and entertainers and in the highly attractive Australian market. While these acquisitions temporarily increased our net leverage ratio by approximately half a term that further diversify our portfolio and our cash flow and enhance our competitive position.

We expected these firms will evolve into large platforms, adding new talent and clients, in the commensurate $29.4 million increasing preference. We believe that the higher net leverage ratio did not result in a material increase in our risk profile while these new partner firms increased the value of our partnership.

Let me provide you with a little background on the unique characteristics of each well. Williams Jones for WJA is an elite fiduciary wealth manager is approximately 8 billion in client assets and over 30 years of experience serving high net worth and ultra-high net worth, part of the clients in the greater New York City area, one of the largest wealth management markets in the US.

WJA has a long-tenured management team sophisticated investment expertise and robust infrastructure, making it an attractive platform for advisors and teams as well as future merger candidates. WJA also has a well-defined growth strategy centered on expanding further in New York and in South Florida. Escala is one of the best recognized wealth management firms in Australia with over 3 billion in client assets and offices in Melbourne, Sydney and Perth.

Australia is one of the largest wealth management markets outside the US and is undergoing a similar secular shift to the fiduciary advice model. There are only a few Australian fiduciary wealth managers, the reach that Escala has reach in the high net worth and ultra-high net worth space which make it an exceptional anchor investment. Escala is planning to expand its national presence and establish a footprint in select Asian markets.

Outmen Greenfield and (inaudible) AGS is one of the largest multifamily office in business management Focus firms in the US catering to the ultra-high net worth and high net worth clients nationally. AGS gives us critical mass in this space and will be a source of meaningful organic growth.

We already using our scale expertise in purchasing power to enhance AGS operations in technology architecture. We expect that AGS offering particularly in multifamily offices, may be utilized by many of our partners terms as they build on the services they provide to their own clients.

We head into year-end, with no shortage of high-quality transactions and our momentum remains strong. While Q4 is typically seasonally slower, we anticipate that activity for both direct deals and mergers will continue to be healthy throughout 2020.

As we begin to focus on the coming year. I want to address how we are thinking about the balance between growth and leverage, M&A driven sources of growth remains central to taking advantage of the continued industry consolidation. We will remain at the forefront of capitalizing on this trend. Organic growth will also continue to be important to how we achieve our overall growth objectives.

We believe that 20% revenue in trend and adjusted net income per share growth rates are the appropriate annual targets for our business. Although our quarterly rates could barely above or below these targets assuming constant markets we anticipate that our net leverage ratio will remain essentially unchanged at 4.3 times from Q3 to Q4.

We intend to delever gradually starting in 2020 as we execute against this solid pipeline and satisfy earn outs associated with the transactions we have closed in the past and plan to operate with a net leverage ratio between 3.5 and 4.5 times. We are comfortable that this range gives us the flexibility to pursue larger strategic transactions, while also accelerating the growth of our existing partner firms and investing to drive organic growth.

While we don't plan to issue equity in the near term, we will consider using equity as consideration for larger accretive transactions with this structure makes sense. Based on our cash flow characteristics, we expect to achieve a 20% revenue and adjusted net income per share growth goals by remaining within our net leverage ratio guidance. We are implementing several initiatives that will take advantage of our scale in turn enhancing our operating leverage while also increasing our cash flow available of capital allocation.

We will talk about our growth strategy and these initiatives in more detail at our Investor Day on November the 20. But as I mentioned previously, our goal is to enable our partner firms to accelerate their growth through mergers, while also increasing their growth by offering additional services which complement the existing planning and investment capabilities.

One example of this is our FCS cash and credit offerings. The response to these programs has been overwhelmingly positive. This is a significant number of our partner crimes, taking advantage of those offerings for the clients. Our team is currently working on approximately $400 million in financing transactions and is placed over 125 million in FDIC-insured high yield deposits. Given the attractiveness in diversification of our client base, interest from a consortium of banks and service providers is high. We don't use our balance sheet to support FCS but rather rely on this consortium to provide the capital.

At this point, access to the programs for any bank or service provider that passes our due diligence standards, it's from network subscription agreements. While this revenue contribution will likely be modest for the coming year, we anticipate that our partner firms will directly benefit from new client assets in high client retention. Before turning the discussion over to Jim, I want to take a moment to acknowledge that improving our disclosures remains a high priority.

We have made a number of additional disclosures this quarter to facilitate and better understanding of the true growth potential and high differentiated nature of our business.

With that, let me now turn over the call to Jim. Jim?

James Shanahan - *Focus Financial Partners Inc. - Chief Financial Officer*

Good morning, everyone. We generated excellent results in the third quarter and first 9 months of this year. For Q3, our revenues grew 34.3% and our adjusted net income per share grew 34.8% over the prior year quarter. Well above our stated annual targets of 20% for both. Our organic revenue growth rate was 22.4% for Q3 and for the year-to-date period was 13.8%. Year-to-date through November 7, we closed 34 transactions.

Our results reflect our ongoing investment in wealth management businesses that create a strategic competitive advantage for focus and our partner firms.

As we already commented on the benefits to our business of the large new partner from acquisitions, we've completed, I wanted to briefly touch on the mergers, our partner firms are execute to capitalize on industry consolidation and scale their businesses. Over time, firms that take advantage of mergers have more than doubled our revenue growth rates as compared to those that only relied on client by client acquisition and market appreciation. Mergers enables efficient access to large pools of client assets, new spheres of influence, distribution channels and exceptional advisor talent. These benefits when combined with the value add services we provide help our firms build the scale that they wouldn't be able to do on their own and positions them to be platforms that will lead the industry in the future.

As noted on page 13, of the earnings supplement our partner firms have attractive revenue growth profiles, both with and without mergers. The 49 partner firms that have been with focus for 2 years or more as of September 30 have generated a weighted average revenue of 13.5% and immediate CAGR of 9%.

Breaking this down further, the 20 firms that have not yet completed a merger have grown their revenue at a weighted average CAGR of approximately 7% since inception reflecting their organic growth, including the effect of market appreciation. For the 29 firms that have completed a merger, this revenue CAGR more than doubles to approximately 15%. The compounding effect of this incremental growth is substantial over time.

Now turning to for further details for the quarter, total revenues for Q3 2019 were $316.6 million, 34.3% higher than the prior year quarter, approximately 25.7 million of this growth resulted from 6 new partner firm acquisitions that closed during 2019. We close Williams Jones on August 1, which contributed approximately 7.4 million for Q3 revenues on a full-quarter basis; we expect this contribution to be approximately a 11 million.

Wealth Management fees, continue to be the primary driver of our revenue growth, our fee-based and recurring revenues remains in excess of 95% of our total revenues, which remains an important differentiator for our business. Approximately 73% of our revenues for Q3 were correlated to the financial markets both equity and fixed income, of which 70% were generated from advanced balance.

The remaining 27% of our revenues came from sources not correlated to the markets primarily from our partner firms that provide family office type services. These firms have consistent, strong growth profiles independent of market cycles. As I mentioned earlier, our Q3 organic revenue growth rate was 22.4%. This rate was positively impacted by the merger activity of our firms during the last 12 months, including lower and award, which contributed 12.8 million in Q3 with 7 additional firms executing their first merger during this period.

Given the intrinsically volatile nature of this number. It is important to look at the trend over the last 2 years for this period. Our average quarterly organic revenue growth percentage was approximately 15%, demonstrating strong same-store sales growth. Of our Q3 partner firms over half have completed one more mergers accelerate in their revenue growth in the process. Based on our visibility to the advanced bill and by many of our firms, we anticipate organic revenue growth will exceed 15% in the fourth quarter. While organic revenue growth can vary quarter-to-quarter based on the timing of the mergers are completed, the levels we are achieving on a trailing basis demonstrate the attractiveness of our model.

As in prior years, Q4 revenues are expected to be impacted by approximately 5 million through the seasonality of certain tax and other services, which tends to be lower in the first and fourth quarters of each year. Our adjusted EBITDA was $69.4 million for the quarter; increase in 30.7% year-over-year. Annual acquired based earnings for William Jones were $16.5 million. Williams John's contributed approximately $2.9 million of adjusted EBITDA in Q3 full-quarter basis, is expected to be over $4 million. Year-to-date through November 7, acquired based earnings for the 6 partner firms we closed is $35.1 million. We also closed 28 mergers, of which 6 were in the third quarter and 4 to date in the fourth quarter. We don't anticipate any new partner from closed in Q4, given typical seasonality. The mergers, we completed, year-to-date were done on behalf of 16 partner firms and 8 of these firms are executed in their first merger. Our adjusted EBITDA margin for the quarter was 21.9% more favorable than our 21% adjusted EBITDA margin in Q2 reflecting lower SG&A costs, which are approximately 18.5% of Q3 revenues.

We estimate that our adjusted EBITDA margin will be approximately 21.5% in Q4 reflecting the seasonality of the business. Management fees, which is one of our largest operating expenses increased sequentially by $1.9 million, which reflects the Williams Jones closing. Management fees can vary based on the percentage acquired in the mix of new partner firm, acquisitions and mergers and by the number of people that are part of the management company of each partner firm. Our non-cash equity compensation expense was approximately 1.5% of revenue for the first 9 months of 2019, which remains a good proxy for the normalized expense.

Our adjusted net income was $45.6 million, 33.7% higher than the prior year quarter and ENI per share was $0.62, a 34.8% increase for the same period reflects an acquisition momentum over the past year. As a reminder, the share count for our ENI per share calculation is impacted by our quarter-end share price, which is used to common unit equivalents for the incentive units outstanding that the focus LLC level. We didn't any equity in connection with our Q3 acquisitions nor will we in connection with the mergers in Q4.

This quarter we have disclosed our LTM cash flow available for capital allocation to help investors better understand the cash flow dynamics of our business. We use LTM to normalize quarterly working capital changes. This metric includes our adjusted free cash flow plus the portion of the earn-out payments included in our operating cash flow activities.

See page 21 of our earning supplement for the details. For the LTM period ended September 30, 2019, we generated a 127 million in cash flow available for capital allocation, a 38% increase year-over-year, reflecting our strong fundamentals and CapEx light business model. Our cash flow generation continues to increase substantially supported by the growth in our adjusted EBITDA over the last year.

We have used our cash flow, primarily to make acquisitions and to satisfy earn out obligations in Q4, we expect to pay approximately 3 million in earn out obligations. Additionally, we will pay the final 12.5 million purchase price installment to learn more in Q4.

Now turning to other balance sheet items. We ended the quarter with approximately $1.28 billion in debt outstanding under our credit facilities and our net leverage ratio of 4.27 times. Our net leverage ratio increased from 4.05 times in Q2 to 4.27 times in Q3. Through the acquisition of William Jones, which we believe has significant shareholder value over time.

We are comfortable with this level of net leverage in part because of the downside earnings protection we have with the preference we acquired in each transaction we do. Since January 2017 we have generated cumulative net partner firm acquired based earnings of 117 million, while we also have a preference for the other transactions, we've completed the last 2 years, the most relevant because the partner firms acquired during this period are typically closer to their target earnings which provides more immediate protection against market volatility.

This coverage combined with the low interest rates we are paying and the limited duration risk on our debt given the remain an approximate 5-year maturity on the term loan gives us considerable downside earnings and cash flow protection in the event of a market correction. Please see page 20 of the earnings supplement, which provides a sensitivity analysis on the net leverage ratio impact of a material equity market correction. We will continue to manage our capital resources carefully while maintaining sufficient flexibility to invest in the growth of our business.

In summary, we've had another excellent quarter and first 9 months of 2019. Our results reflect our ongoing investment in wealth management businesses that create a strategic competitive advantage for focus and our partner firms. We will continue to position our partner firms to achieve scale and deliver into value well into the future.

We will remain focused on managing our capital resources carefully to ensure a strong balance sheet, while maintaining sufficient flexibility to invest in the growth of our firm.

I'll now turn the call over to the operator for Q&A. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Owen Lau with Oppenheimer & Company.

Owen Lau - *Oppenheimer & Co. Inc., Research Division - Analyst*

So first of all, thank you for the additional disclosure for the leverage target and you talk about the gradual delevering in 2020. Would you be able to start delevering at the beginning of 2020. Any more color on the timing would be great. And then on Slide 18, you mentioned that pre-focus the 3 large firms had 3-year average revenue CAGR of over 10% trying to tie this back to Slide 13 a lots of good work there. So for firms at this size, what does it take to accelerate the already very strong organic growth, like what you did for other firms? Thank you.

Ruediger Adolf - *Focus Financial Partners Inc. - Founder, CEO & Chairman*

So thanks for the one. And let me to take the second question first and then I'll respond to the first question. One of our distinct competitive advantages is we're able to attract very high-quality firms and have a track record of doing this over a long period of time, which of course explains, what we disclosed the first time -- this call is the 25% IRRs that we have been achieving across the portfolio. And these 3 firms and the reason we're highlighting them they had really the biggest impacts as our 3 largest transactions on the slightly elevated leverage ratio that we have. And we believe we used -- we deployed capital in outstanding opportunities, in fact I would make the same decision again and again, because a growth trajectory of these firms, just before you joining focus is excellent.

Now when you look at this page 18 in context of page 13, what you basically see that the average portfolios firms joined us here grew at 13.5%. The higher number versus the in excess of 10% that we are disclosing for this firms quite frankly has a lot to do with the value-added programs that firms ultimately can participate in the moment they are joining Focus. As you can see once firms come in and have gone through the various programs that we have a basically double their growth rates, thereafter, and it's not just M&A, it is many other factors. We mentioned the marketing programs we are mentioning some of the other value added programs that we have that in combination to help firms dramatically increased the growth rates after they join Focus.

Owen Lau - *Oppenheimer & Co. Inc., Research Division - Analyst*

That's good. And how about leverage would you be able to --

Ruediger Adolf - *Focus Financial Partners Inc. - Founder, CEO & Chairman*

We reported 12.27 times this quarter and the range we provided is 3.5x to 4.5x, this is sort of the range to help us achieve our goal of 20% revenue and 20% A&I per share growth. We are confident in these measures. We've added on supplemental disclosures on Slides 21 to sort of show our cash flow that we're generating and what the uses are and obviously these have attractive growth rates and free cash flow, EBITDA conversion rates. This cash flow, which help us delever and helps us acquire into the future and still remain in these leverage ranges and achieve our objectives of revenue was 20% in ANI per share of 20%. And obviously we have a strong pipeline and when kind of put all these together we'll start to delever within this range over time.

James Shanahan - *Focus Financial Partners Inc. - Chief Financial Officer*

It's very hard to tell -- underwrites it on a quarter-by-quarter basis, because of course it has all to do with when we actually close specific transactions, but we are comfortable that we can reach our financial objectives while at the same time gradually deleveraging as we explained.

Operator

Our next question comes from Chris Shutler with William Blair.

Christopher Charles Shutler - *William Blair & Company L.L.C., Research Division - Analyst*

Rudy could you talk about the competitive environment for deals, you mentioned a bit in the prepared remarks, both at the partner firm level and for mergers. I know you're staying disciplined on price. I mean, you're clearly seeing a ton of volume out there, but just curious, have there been cases? How often are there cases where you are for assets that you'd like to have?

Ruediger Adolf - *Focus Financial Partners Inc. - Founder, CEO & Chairman*

Yeah. Hi, Chris. So, the competitive environment has definitely intensified but still has the opportunity set. The industry is doing more deals every quarter, every year than in prior years. And quite frankly, we have no shortage of opportunities. And when you look at the 3 deals that we are highlighting in this earnings announcement and any of the other deals -- I would put them against just about any other asset that's in this industry, what makes us so competitive? Yeah, is ultimately the core value proposition that we have. Then ultimately you run is successful well established ROA and you want to protect your culture, you want to run it's in an independent way. You don't want to be part of some large monolithic entity. Or quite frankly you want to have access to in long track record of value-added programs and you want to access to capital, focus is the only game in town. There is nobody else who has this value proposition. Private equity, which is probably what you're thinking off right now. They have significant increased your presence in this industry, but they are temporary capital. So particularly when you're operating in the ultra-high net worth space, you have to go to your clients and you ask for the approval and ultimately say okay, can you please sign a client agreement and by the way in 3 or 4 years, I will be coming back because private equity from X is going to sell me again. They will be in control of this transaction not me anymore.

And we'll see what will happen, very difficult to do in the high net worth and ultra-high net worth space. Similarly intra industry consolidations some now usually don't have the access to capital that we have. And most certainly nobody at least I claim is in close to having the track record of value-added programs that we have and the ability to multiply the growth of partner firms when they joined. So we feel very good about the market dynamics, we feel very good that we have a very sustainable positioning here in the M&A space and obviously, as we are demonstrating. We are still paying mid to high single digits, which we believe is a clear indication of the power of our value proposition.

Christopher Charles Shutler - *William Blair & Company L.L.C., Research Division - Analyst*

Okay, thanks. And then on the detail that you gave, around the 3 firms that's helpful. So you say over 10% 3-year revenue CGAR on average, can you give me a sense of how much variation there wasn't there and or each of them over 10% or what's the range?

James Shanahan - *Focus Financial Partners Inc. - Chief Financial Officer*

Yeah, so the firms quite frankly have quite comparable growth rates, but when you look over there 3 year of timeframe. None of them were in the M&A game during that period of time. So in other words here, this is simply, they are core business growth of course did not have access to any of our value-added programs. So we firmly believe that, yes, your leverage went up by 0.5x because of the execution of these 3 firms, but at the same time you we deployed capital extremely well and I think importantly we don't believe that the risk profile of the business increased because, yes leverage went up a little, but our preference the acquired based earnings went up by $29.4 million, which basically gives us an excellent your downside protection, which of course is essentially in our business model. So, we think we deployed capital extremely well into these 3 fast-growing attractive platform.

Christopher Charles Shutler - *William Blair & Company L.L.C., Research Division - Analyst*

Alright. And then lastly, just, Rudy, you mentioned in the prepared remarks, placing an increased emphasis on business intelligence and shared best practices could maybe dive into those a little bit more.

Ruediger Adolf - *Focus Financial Partners Inc. - Founder, CEO & Chairman*

Yeah. So we'll be talking more at the Investor Day, but it is a little sneak preview, there 63 partner firms over 300 billion in client assets. We have in inside into the industry that just nobody else has. And we have been investing for a while now into a concerted effort to ultimately use this data, for the advantage of our partners. So we are rolling out new MIS that basically provides excellent benchmarking inflammation in terms of financials, in terms of risk metrics in terms of portfolio indications across our partner firms did, that nobody else in this industry can do. And we believe that scale our unique scale leads to better information that ultimately the competitive advantages. So, it's just one-off in number of examples that we will be discussing at the Investor Day, it speaks to how our scale is a clear competitive advantage that to add value to our partners.

Operator

Our next question comes from Dan Perlin with RBC Capital Markets.

Daniel Rock Perlin - *RBC Capital Markets, Research Division - Analyst*

Good quarter. I wanted to just talk a little bit more about the interplay between leverage growth for you guys. Where do you talk about flexing up 0.5 turn to take advantage of these bigger deals. We certainly appreciate that and you've taken the range up to 3.5 to 4.5 turns. The question I guess I really have is under the old kind of algorithm. I was thinking it was 3x to 4x leverage get to 20 plus percent growth. You've been running at 30 plus percent growth since going public. Is there anything to kind of read into that, that you're going to have to maintain slightly higher leverage in order to maintain 20% or should we just consider that a conservative benchmark and you can actually still run above that at these leverage rates? Thanks.

James Shanahan - *Focus Financial Partners Inc. - Chief Financial Officer*

Yeah, so the 3.5 to 4.5 of course is simply its statement of fact when you look at our Q3 and our guidance for Q4, leverage and our model allows us to meet this 20% growth targets here by operating within this range. You're correct that our growth of course massively exceeded our 20% guidance since the IPO. And we are now showing in our disclosures here, how and where we deployed this capital, which we believe we deployed extremely well, but yes we firmly believe that within the leverage guidance. We will be able to operate with the same 2020 that we indicated at the IPO, both at the IPO, and now you have, -- we never provided above 20% guidance. In reality is of course we vastly exceeded it but we feel very comfortable that within the new guidance, we can meet our financial objectives but at the same time started delivering process in the first quarter of next year.

Daniel Rock Perlin - *RBC Capital Markets, Research Division - Analyst*

Great. Can you also just touch base on the international expansion. I mean, I know the acquisitions that you've recently done kind of support, the kind of Australia play in the past you've talked about the UK and Canada. But I'm just trying to make sure I frame it. It's a relatively small piece of business today, but it sounds like there could be some additional resources that are committed to those markets? Thanks.

James Shanahan - *Focus Financial Partners Inc. - Chief Financial Officer*

So today, you're correct 4.4% of our revenue base is international. Having said that, we see these international markets and really Australia and Canada first and foremost is very attractive gross diversifiers for us for many years to come. We usually test our (inaudible) with some smaller activities in these markets. Until we have a firm grasp and deep understanding of the dynamics and then we scale up and it's Carla prime quadrant we announced earlier this year, are examples of scaling up and quite frankly with both of these firms here, these are ultra-high net worth firms. We believe some of the very best in these markets, and it's really the power of our value proposition where we could offer something to this entrepreneur that simply was not available in Australia or Canada.

So, we feel very good about the future prospects for these firms in this market. As I explained before, what we offer in the States is highly differentiated versus just about anybody else, in so many ways in these markets. It's almost unheard off, our type of business model which quite frankly attracts very, very high quality firms. So while we will at the core of course, always be a US business first and foremost. We really like the growth potential and the economics of investing in these markets and we see many opportunities going forward.

Operator

Our next question comes from Mike Carrier with Bank of America.

Dean Stephan - *Bank of America Merrill Lynch - Junior Research Analyst*

This is Dean Stephan on for Mike Carrier. Just a question on the client solution offering, I know you guys mentioned modest revenue contribution from the program in the coming year but wondering if you could just expand a little bit on what kind of interest you're seeing from both banks and clients and what kind of revenue contribution that program could maybe generate longer term? Thank you.

Ruediger Adolf - *Focus Financial Partners Inc. - Founder, CEO & Chairman*

Hi, Dean. So this is a very important example of how our scale enables us to create solutions that are very unique and very powerful for our partners. And first and foremost, we are doing this because it enhances our ability to support our partners with solutions that simply couldn't find anywhere else. I mentioned before, we are working on this disposables was just launched, but on 400 million in financing transactions on 125 million in FDIC insured deposits, which is just a small start for us. And what first and foremost, it does and we have seen this now live. It helps our partners have a larger share of wallet of the total balance sheet of these clients. The other solutions like FX solutions and other things that we are launching that are quite frankly extremely attractive for this ultra-high net worth client base that we have. So, the economic benefit first is going to be simply a bigger share of wallet more advisory and therefore more revenues and profitability for our partners. Second, and we'll talk more about this at the Investor Day, our banks we're not using our own balance sheet, but we have a group of banks that we'll will be disclosing in due course. There are participants in this program, they're paying a platform fee and this platform fees is designed to first just cover the cost of the program. We had to hire a number of professional bankers who run the program. So, it covers our expenses and overtime. Yes, it will be a meaningful contributor to our economics. But if it was purely a breakeven for the holding company, we would still do it because the number one benefit of larger share of balance sheet in better service offering to clients in and itself justify this program many times over.

Now one thing to stress here is; so this is a network of at least 10 to 15 banks that is coming together and this network only works when you relevant. So in other words, you need to operate it very significant scale to be relevant to this if you want to open architecture of banking solutions that we are introducing here, which ultimately speaks to only player in our scale can put such a network together of banks who ultimately compete for this business for the best solution for these clients. While at the same time being relevant in attractive is a partner to this participating banks. So we think it's a very attractive program more to discuss at Investor Day, but it's a very meaningful value added to our partners and their clients.

Operator

Our next question comes from Patrick O'Shaughnessy with Raymond James.

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

So obviously, so much about your stories about the deployment of capital for acquisitions. To that end, do you think that return on invested capital is a reasonable way for external investors to view your business and the effectiveness of your acquisition strategy?

James Shanahan - *Focus Financial Partners Inc. - Chief Financial Officer*

Yeah, hi Pat. Yeah, we kind of discussed this in the past. We don't really think it's the best way to think about there. We disclosed now the IRRs, the 25%, which we think is a good measure in some ways. But, internally invested capital NT IRRs, it doesn't take into account the future growth rates of these businesses. So I think the real power here is, and we are demonstrating this year, when you look at page 13 in terms of your growth rates of firms, the Focus and how they grow. You need to have a very clear assumption about the future growth rates to really ultimately put this into your formula, which we think is kind of too imprecise. We use the IRR. But we do use very conservative methodology in the way we calculate the IRR. So the IRRs, that we are demonstrating here, and I think it's explained in the footnote in more detail, is your first in the multiple in, and the multiple out. So, if you're not assuming a multiple arbitrage in this formula which is extremely conservative. We are using our current cost of capital in current debt-equity ratio for these transactions, so in other words, we are really overstating the use of equity in these transactions versus the empirics. Then, we didn't make an assumption about future growth, but we ultimately simply looked at the cash flows that these firms have delivered to us since the start.

So, under this very conservative assumptions, we created extraordinarily high IRRs. A better way, of course, or a more optimistic way, would be to factor in the multiple -- if the holding company, which of course is substantially higher and the multiple state we are deploying currency prices, and quite frankly, we're really looking at a much higher use of debt versus what we're using in this formula. I think with this conservative assumptions we ended up was very attractive IRRs, which was simply reflective too. We set the expertise we have built and to track record that we have built with the 63 partner firms and, of course, all the mergers that we have done on top of it.

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

All right, thanks. And then as you noted earlier, your acquisition strategy has shifted to some extent in the last couple of years from direct partner from acquisitions to mergers executed by our partner firms. Is that just the normal ebb and flow of the M&A cycle and the deals that come to market or is that part of a deliberate strategy? And if so, is that related to the fact that your partner from mergers tend to be at lower multiples than the direct acquisitions?

Ruediger Adolf - *Focus Financial Partners Inc. - Founder, CEO & Chairman*

So it's very much a deliberate strategy. When you look at page 15 of the supplement, you see the total number of transactions here, 34 year-to-date and 6 partner firms. Three core reasons why we prefer mergers. One, it's an essential part of our value proposition. You have seen our partners joined us and whenever we have the opportunity here to vector a new opportunity to one of our partners, that's our preference because it helps them, it helps us, it validates an important part of our value proposition and yet, it's our preferred outcome. Second, mergers are more immediately accretive because of consolidation benefits. There are many transactions, you have all the obvious consolidation benefits that you would expect, which is office consolidations overhead maybe cross sell, pricing changes or other things here that you would see in a merger, but you wouldn't see in a holding company transaction. So yes, the economics are compelling on the merger side. Three, that's very much the dynamics of the industry. This is an industry with $17,000 raise and most of them are small businesses and we have this, what I believe, very powerful business model, where we can ultimately find solutions for just about any firm in this industry that does a good job for their clients that have good economic model and ultimately, have built a sustainable business.

So, having now 63 partner firms, more than half of them are platforms, meaning are able to do M&A transactions, speaks to the very strength of our business model and to the uniqueness that we have in this industry. It really speaks to the strength of what we have built here. So, yes, on balance, whenever we can do a merger, that's our preference versus the holding company deal. But then of course the flip side, when you look at the 3 firms to be highlighted on this earnings call, these of course are very robust, large platforms themselves, who will be platforms themselves and would not have been a merger candidates for any of our other partner firms.

Operator

Our next question comes from Kyle Voigt with KBW

Kyle Kenneth Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

Maybe a couple for Jim. One on the CapEx. It looks like that's increased pretty meaningfully over the past few quarters. Just wondering what initiative or investment that's related to specifically? And then, also just wondering if you expect this level of investment to persist into next year as well?

James Shanahan - *Focus Financial Partners Inc. - Chief Financial Officer*

Yes, thanks. As I mentioned on the last call, we moved our corporate headquarters in New York in July and so, the CapEx cost was sort of elevated in the Q2 and Q3 time frame, as we did that, that build out, and then they'll sort of normalize down to more historic levels starting in Q4 forward.

Ruediger Adolf - *Focus Financial Partners Inc. - Founder, CEO & Chairman*

Just generally, our model is extremely CapEx light, it was just this one-time event really, for corporate headquarters, which is now under a very long-term lease.

Kyle Kenneth Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

Understood. And then also just a question, the slide for uses of capital into next year. There's going to be cash earn-outs of $60 million plus, which seems like a very high number relative to what you've seen over the last 12 months, or in the last couple of years. Just wondering what's causing that. Is it just a timing issue, is it going to continue to increase on a go-forward basis, just given the deals that you've completed maybe 3 years prior and that continuing to build? Just wondering can you give some more clarity there?

Ruediger Adolf - *Focus Financial Partners Inc. - Founder, CEO & Chairman*

Yes, let me maybe respond first. So, we love to pay these because they ultimately mean the businesses that we are investing in are doing exactly what we expected them to do, as these earn-outs are based on performance criteria that these firms need to make. So it's quite frankly it's, first and foremost, a reflection of terrific deal velocity that we had over the last number of years. This can be client retention criteria. It can be gross criteria. Usually, our earnout structure, as we explained this, over a 6 year period. Most cases, yes, there is a first 3 year and there is a second 3 year period. And it quite frankly speaks simply to the high quality of partner firms that we are bringing into the partnership. So, there will always be a deferral mechanism, do you rather want to pay 6x CFO transaction, or 4x, plus one X, plus one X, linked to certain performance criteria. It's one of the many techniques that we are using, which really aligns the interest of our partners with the interest of the holding company and we like to pay this because it means we are doing excellent deals.

James Shanahan - *Focus Financial Partners Inc. - Chief Financial Officer*

And I think from a numeric perspective, Kyle, you can go through Note 7 of the Financial, which is a GAAP Monte Carlo concept present value of the earn-outs, which at 9:30 was $159.7 million. But that's based on a lot of assumptions over a very long time cycle. So to enhance the visibility, we have this new disclosure on the cash flow available for capital allocation and while it's hard to have a crystal ball beyond a year, we wanted to give some disclosure clearly for the next 12 months, where some of the uses of cash will be used. And obviously we have the $60 million plus earn out obligation and then some other installments, the final one on Loring Ward and some term loan amortization.

Kyle Kenneth Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

All right, thank you. And then just on that new metrics that you provided in the cash flow metric. Just a question on the cash flow statement. I guess if we are for looking at your changes in working capital, year-to-date. I think it's negative $15 million or so. I think last year, it was negative $32 million or something like that. I was wondering why it seems like it's been a persistent theme for a number of years? There some working capital changes that are drawing down some cash. Is that just due to billing methodology or could you just provide some clarity there?

Ruediger Adolf - *Focus Financial Partners Inc. - Founder, CEO & Chairman*

Yes, thanks. So, firms that sort of bill in rears, you build up your receivables. So that would be a drain on working capital, it's on a negative for the business. Then you have that change quarter-over-quarter. The management fees that we pay, we pay them out on a monthly basis and there is a hold back that gets paid out generally in Q2 of each year. Then, if you think about bonuses across the partnerships, people generally get paid year-end bonuses in Q4. So, it's those types of things that can trigger working capital changes on a quarter-to-quarter basis, so therefore to normalize for that, we did a disclosure of last 12 months as of 9:30 so you can cut through these quarterly fluctuations.

Operator

I'm not showing any further questions at this time. I'll now turn the call back to for Rudy for his concluding remarks.

Ruediger Adolf - *Focus Financial Partners Inc. - Founder, CEO & Chairman*

Thank you all for your interest. In closing, I cannot emphasize here enough, the power of our differentiated model. We continue to extend our track record as we demonstrated in this quarter, we increased our market share and drive revenue and earnings growth at industry-leading levels. We have built an excellent portfolio of firms, as evidenced by -- this reaffirms we did, we spent more time on this call. And we believe that network of similar size and scale and quality simply cannot be replicated. Since our IPO, we have demonstrated extraordinary growth in all key dimensions, exceeding all the guidances that we provided and importantly, every time a new partner joins Focus, it adds expertise and scale to our group. But also, it's a validation of our business model that we firmly believe is boding well for a strong future. Thank you for your interest and we look forward to speaking with you again at our Investor Day in November 20th.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.
