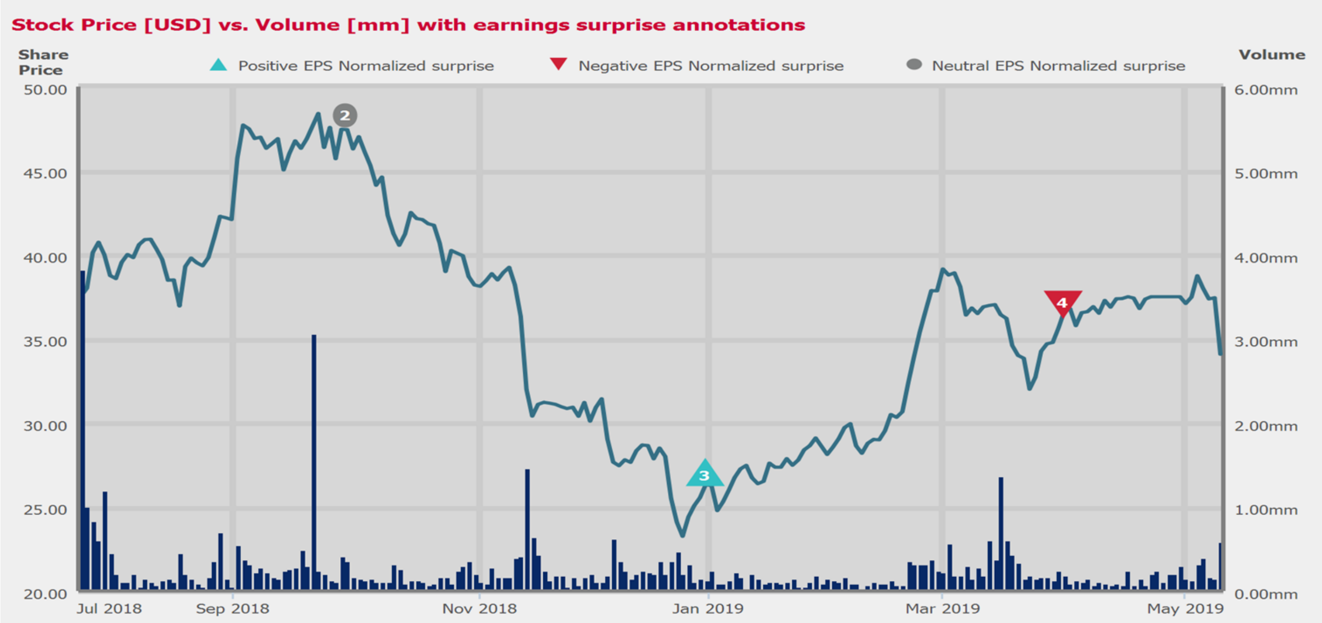
Focus Financial Partners Inc. NasdaqGS:FOCS
FQ1 2019 Earnings Call Transcripts

Thursday, May 09, 2019 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2019-			-FQ2 2019-	-FY 2019-		-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	GUIDANCE	CONSENSUS
EPS Normalized	0.48	0.47	(2.08 %)	0.55	2.19	2.09	2.70
Revenue (mm)	258.97	259.92	0.37	288.06	1156.66	1093.06	1415.58

Currency: USD
Consensus as of May-07-2019 10:25 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2018	0.38	0.40	5.26 %
FQ3 2018	0.46	0.46	0.00 %
FQ4 2018	0.50	0.51	2.00 %
FQ1 2019	0.48	0.47	(2.08 %)

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General Counsel & Corporate Secretary

James Shanahan
Chief Financial Officer

Ruediger Adolf
Founder, CEO & Chairman

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Presentation

Operator

Good morning. I would like to welcome everyone to the Focus Financial Partners 2019 First 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. [Operator Instructions] As a reminder, this conference call may be recorded. Mr. McGranahan, you may begin.

J. Russell McGranahan
General Counsel & Corporate Secretary

Good morning, everyone. I am Rusty McGranahan, the General Counsel of Focus Financial Partners. Before we begin, let me remind you that during the course of this call, we may make a number of forward-looking statements. We call your attention to the fact that Focus' future results may, of course, differ from these statements. These statements are based on assumptions made by and information currently available to Focus Financial Partners and involve risks and uncertainties that could cause the results of Focus to materially differ from these statements. Focus has made filings with the SEC, which list some of the factors that may cause its results to differ materially from these statements. And finally, Focus assumes no duty and does not undertake to update any such forward-looking statements. With that, I will turn it over to our Founder and CEO, Rudy Adolf.

Ruediger Adolf
Founder, CEO & Chairman

Thank you, Rusty, and good morning to everyone who has joined our call. We appreciate your interest in Focus. Just a quick update before we start. This quarter, we expanded our earnings supplement to help facilitate our discussion this morning. The supplement recaps key statistics about the quarter and other information that Jim and I will be discussing on the call. We hope you will find this helpful, and as always, we welcome your feedback.

Now turning to our quarterly results. We again delivered strong results in the 2019 first quarter with our revenues and adjusted net income per share growing well in excess of our 20% annual gross targets despite the lag effect of the market's decline in the first quarter primarily in equities and fixed income.

Our partner firms performed well during the quarter, delivering value to their clients across a range of wealth management services. Client retention and adviser satisfaction remained extremely high, and our partners continue to utilize the full range of our value-added services.

We had a record quarter of M&A volume activity, closing on 3 new partner firms and 9 mergers for our existing partners. These transactions further increase our presence in the ultra-high and high net worth markets and expanded our international footprint, which are both important growth priorities. The power of the Focus partnership was clearly evident in these results, demonstrating our ongoing ability to acquire high-quality wealth management firms and accelerate their growth. Furthermore, since March 31, we have closed an additional 2 partner firms and 7 mergers, and we have 4 additional transactions signed and pending close. So overall, we have had an excellent start to the year not only in terms of our performance but in executing against our growth strategy. As a result, we feel we have never been better positioned to achieve and this year potentially exceed our annual targets of 20% growth in revenues and adjusted net income per share, consistent with our historic growth as shown on Page 6 of our supplement.

We also made an important addition to our value-added services by introducing Focus Client Solutions or FCS. If you turn to Page 9 of our supplement, we have provided recap of this program and how it works. We have created a network of third-party banks and nonbank lenders to provide a competitive array of cash and credit solutions to our partner firms. This enables them to proactively help their clients achieve higher yields on cash as well as unlock home equity and business values for refinancing, commercial lending and other options. This is truly a unique offering in the RIA industry. We are very excited about this program, and it is yet another example of how we can use our scale, access and purchasing power to help our partners deliver exceptional services to their clients. We anticipate that FCS will support the organic growth of our partner firms. However, since it is just being launched, we don't anticipate any significant impact to our 2019 financial results.

Since going public 9 months ago, I've talked at length about the secular shift occurring in the wealth management industry from the suitability model offered by banks and brokerage firms to the fiduciary adviser model offered by RIAs. Fiduciary advice complemented by open architecture and the fee-based revenue structure has been outpacing all traditional wealth management channels in gaining market share of client assets. However, the industry remains highly fragmented and is still in the early stages of consolidation, which creates a significant growth opportunity for us. RIAs are increasingly seeking to scale their businesses through acquisition, which is a major driver of M&A. With 25 of Focus partner firms having annualized revenues in excess of $10 million, our portfolio is skewed to the largest, most elite RIAs in the industry, which also tend to have the highest growth. Our resources help our partners to provide a sophisticated range of expertise and services, which enables them to attract higher net worth clients at better economics than traditional RIAs.

RIAs are also increasingly seeking options to address succession planning, which is another catalyst of M&A. Industry research indicates that over 1/3 of all RIAs will transition within the next 10 years putting $2 trillion of client assets in motion. Given our expertise in continuity planning, Focus is well positioned to lead the industry in this area, which will be another important driver of our growth.

Our model resonates with RIAs because we not only offer access to tangible resources such as cost-efficient capital and value-added services but also to intangibles such as our scale and powerful network. Critical to our model, our partners receive the benefit of our skill without compromising their entrepreneurship.

Against this backdrop, I want to touch on 2 areas this morning that is less well understood about Focus. The first is why an RIA is a good business to own. What are the characteristics we look for? And how do we ensure we are buying the best firms in the industry? We're highly selective, targeting those firms with owners who are committed to the long-term performance and growth of their business.

As summarized on Page 7 of the supplement, RIAs with this profile are a good investment for 5 reasons. First, the sophisticated and highly personalized wealth management services they provide are not subject to commoditization. Client relationships are built over a long period of time with advisers becoming deeply ingrained in their clients' lives often over multiple generations. These clients are not the typical retail investor who moves from platform to platform in search for the lowest price. Second, the majority of their revenues are fee-based and recurring. The structure is a hallmark of the fiduciary advice model which aligns the adviser's interest with those of his or her clients. Third, they're extremely profitable because they don't require substantial amounts of infrastructure to operate effectively. Fourth, they're highly entrepreneurial and want to operate independently. This mindset enables them to quickly adapt their businesses to changes in the market and evolution in client demand. These characteristics drive far better outcomes for their clients. Fifth, their open architecture. They can select the best product, service providers and investment vehicles to suit the needs of their clients, enabling them to always put their clients' needs first.

Our partners are larger and highly entrepreneurial with well-established businesses and they have demonstrated their ability to take advantage of the shift in client assets to the RIA space. They're typically managed by owners who have a systematic approach for their business development and have structured their businesses to be scalable. They have proven track records of performance and growth that will be further enhanced by their partnership with Focus. They want to grow through M&A because they appreciate firsthand the time and expense of acquiring clients one by one. Their client bases tend to skew towards ultra-high and high net worth individuals and families, which are the most complex and therefore the stickiest relationships. With Focus' help, many of our partners have grown substantially, through accretive acquisitions of wealth management practices and customer relationships.

We're looking for RIAs facing a succession event. We have substantial expertise in helping these firms successfully navigate this process. To the extent that the firm does not have that next generation of leadership in-house, we are able to identify like-minded partner firms that have the right talent to ensure continuity of advice to their clients.

Before a new partner firm joins us, we complete a rigorous and proven due diligence process. We evaluate a range of criteria including financial and performance metrics, client base, service offerings, advisory experience, firm structure and geographic presence.

Directly linked to this discussion and the key differentiator for us are the value-added services we offer. This is the second area that is less well understood about our business. Focus is much more than just money. So what are these services? How do they benefit our partners, and in turn, how do they contribute to our economics?

We provide strategic advice to our partners without compromising their autonomy, client service or culture. Because they maintain their independence, we don't impose business decisions but rather consult and advise. We give them access to professionals who have top-tier backgrounds in their respective area

[Audio Gap]

a caliber of resources our partners would generally not be able to access on their own. We also provide significant thought leadership and exposure to best practices. We have a team of over 70 professionals who provide help with strategy, marketing and business development, operational and technology support including state-of-the-art cybersecurity, legal and regulatory support and HR advice.

On Page 8 of our supplement, we've provided more detail on some of these services we provide. Separately, [we will] Evaluate service providers across a range of offerings and make recommendations on which ones are the best matches for our partner firms. Focus is one of the largest clients of most major vendors to the industry which enables us to pass along preferred pricing to our partners.

Our value-added services also include identifying acquisition opportunities for our partner firms and helping with both transaction structuring and integration. As M&A is not a core competency for most RIAs, we save them significant time, effort and expense by giving them access to our in-house M&A expertise combined with access to capital. By providing access to these resources, we're accelerating our partners growth and, in turn, their revenue growth.

If you turn to Pages 10 and 11 of the supplement, we have included a case study on how our value-added services have benefited The Colony Group. Since joining Focus in 2011, Colony has utilized a number of our value-added services and also leveraged our M&A expertise which has helped them grow and scale their business dramatically by any measure. We have -- they have reformulated their business strategy, rounded out their service offerings and substantially enhanced their client experience. They significantly increased their geographic presence and in turn the client base and brought a caliber of adviser and leadership talent that would have had difficulty doing on their own, addressing their own continuity planning in the process. As a result, they are an industry-leading RIA.

Now turning to our deal pipeline and 2019 outlook. The momentum we achieved in the first quarter is continuing. Year-to-date, we have closed on 21 transactions and have 4 signed impending deals. Jim will provide you with more detail, but based on our pipeline, we believe that we will have a robust first half in terms of M&A activity. Because of our scale and network, we are seeing an increasing number of attractive partner acquisitions and merger opportunities for our partners. However, it is important to note that we remain highly disciplined in our approach to each transaction, carefully controlling the multiples we pay to ensure that we achieve an appropriate return. And yes, we do credit our successful IPO to be very positive in our 2019 outlook. We have significant runway ahead of us to further expand our business both in the U.S. and international. I'm confident that the qualities which have made Focus a unique business and a leading name in the wealth management space will continue to be catalysts for driving sustained revenue and adjusted net income per share growth in excess of our targets. With that, let me now turn the call over to Jim. Jim?

James Shanahan
Chief Financial Officer

Thanks, Rudy, and good morning, everyone. First, a quick reminder on the format of our financial presentation. The financial statements and other GAAP disclosures contained in our press release include the results of Focus Financial Partners Inc., which is the public company; and those of Focus Financial Partners, LLC, of which Focus Financial Partners Inc. became the managing member and owner of the majority of the outstanding membership interest on July 30, 2018, in connection with our IPO.

Now turning to our financial results which are recapped on

[Audio Gap]

I'm extremely pleased with our 2019 quarter performance with significant year-over-year growth in revenues and adjusted net income per share. These results, combined with strong M&A activity during the quarter and a robust pipeline, reinforce our confidence in our growth targets which are 20% average annual revenue growth and 20% average annual adjusted net income per share growth over time.

Regarding our revenues in the quarter, I would like to highlight the following. Our total revenues were $259.9 million, a $63.7 million or a 32.5% increase year-over-year. Approximately $48.4 million or 76% of that growth resulted from new partner firm acquisitions that closed in the 12 months ended March 31, 2019.

Wealth management fees, which are the fees earned by our partner firms for the wealth management services they provide to their clients, were the primary driver of our revenue growth, increasing $58.8 million or 31.9% from Q1 2018. Our fee-based and recurring revenues remained in excess of 95% of our total revenues, reflecting the stability of our revenue base and we expect this trend to continue.

Our organic revenue growth was 7.7% in Q1 2019 as compared to 17.6% in Q1 2018 and 10.7% in Q4 2018. As discussed on our fourth quarter earnings call, we anticipated that our Q1 2019 organic revenues would be impacted by the effect of the fourth quarter 2018 markets, primarily equities and fixed income market downturn. The advanced billing structure utilized by many of our partner firms resulted in a 1 quarter lag effect of the market decline on our revenues.

As a point of reference, the S&P decreased 14% in Q4 2018. This was a significant change from the 6% increase in the S&P 500 in Q4 2017 and thus a major driver of the period-over-period variance in our first quarter organic revenue growth rate. As a result of the market rally in Q1 2019, strong underlying performance by our partner firms and recent merger activity, we expect that our Q2 2019 revenues will increase on a sequential basis and we anticipate that our organic revenue growth for the quarter will be above 10%, demonstrating the resiliency of the business model. Although we will encounter some variability on our quarterly organic growth, which can also vary due to the timing of merger transactions by our partner firms, we remain comfortable with this target. As we have always stated, we believe that our organic revenue growth rate is best evaluated on an annual basis.

Our Q1 2019 revenues included a full quarter revenue contribution of $12.4 million from the Loring Ward acquisition which closed on November 30, 2018. Additionally, we closed 3 new partner firms, AGS (sic) [AG&S], Prime Quadrant, Foster Dykema Cabot, at different points in the quarter for a revenue contribution of $8.8 million. On a full quarter basis, we expect this contribution to be approximately $11 million.

In Q1 2019, we estimate that 72% or approximately $188 million of our revenues were correlated to the financial markets, primarily equities and fixed income, of which 71% or approximately $133 million were generated from advanced billings. The remaining 28% or approximately $72 million of our revenues were not correlated to the markets. These revenues typically consist of fixed fees for investment advice, tax fees and family office type service, primarily for high and ultra-high net worth clients.

On Page 12 and 13 of the supplement, we have provided a recap of our first quarter revenue composition and a study of how revenues may be impacted as a result of billing methodologies, client portfolio allocation and market movements.

Now let me turn to adjusted EBITDA. In the first quarter, our adjusted EBITDA was $54.5 million, a 23.3% increase year-over-year. The annual acquired base earnings for the 3 new partner firms that closed during the quarter were approximately $11.9 million. These firms contributed $2.2 million in adjusted EBITDA during the quarter, which on a full quarter basis will be approximately $3 million.

We had record M&A activity during the first quarter in terms of deal volume and we continued to demonstrate strong momentum into the second quarter. We have provided a summary of the deals we have announced or closed on Page 14 of our supplement. As of the end of Q1, we had 60 partner firms with 2 additional closings on April 1, Escala Partners in Australia and Sound View Advisors. The annual acquired base earnings for these firms are approximately $6.7 million. We anticipate that in Q2 2019, these firms will contribute approximately $1.7 million in adjusted EBITDA.

In summary, year-to-date acquired base earnings for our 5 closed new partner firms are $18.6 million and this is supplemented by the completion of 16 mergers year-to-date with 9 closing in the first quarter and 7 in the second quarter.

As a reminder, our EBITDA margin is primarily driven by the percentage of EBITDA we acquire in our transactions. Accordingly, we cannot provide full year guidance on this margin. However, we estimate that our EBITDA margin for Q2 2019 will be approximately 21%, in line with Q1.

Now let me address a few expense-related items. Our first quarter expenses increased due to the full quarter effect of the Loring Ward transaction as well as the M&A transactions we closed. One of our largest operating expenses is management fees, which are correlated to the growth in revenues by our partner firms. These fees are formulaic, variable and the results of earnings of our partner firms.

Management fees in Q1 2019 increased by $10.7 million or 23.1% from Q1 2018 primarily as a result of new partner firm additions that closed in the 12 months ended March 31, 2019. As a reminder, our GAAP results are impacted each quarter by the remeasurement of partner firm earnout liabilities, which generally recur over a 6-year period. This measurement, which has estimated use in Monte Carlo simulations, is affected by a number of factors which influence the fair values of these long-term liabilities each quarter, result in noncash change in the fair value of estimated contingent consideration of $7.4 million for Q1 2019.

Regarding noncash compensation and interest expense. Noncash compensation for the quarter was $3.9 million. Now that our 2018 IPO and related noncash compensation charges are behind us, the amount of Q1 2019 noncash compensation reflects a more normalized quarterly level of approximately 1.5% of revenues. Interest expense in Q1 2019 was $12.9 million compared to $14.3 million in Q1 2018. This decrease was primarily related to the repayment of our $207 million second lien term loan in connection with our IPO, partially offset by higher borrowing costs under our revolving credit agreement due to acquisition activity.

Our Q1 2019 GAAP net loss was $2.8 million compared to a net loss of $12.1 million in the first quarter of 2018. For Q1 2019, our adjusted net income was $35.7 million, $10.3 million or 40.3% higher than the prior year first quarter, reflecting the acquisition activity completed over the last year as well as organic revenue growth.

Adjusted net income per share was $0.47 per share, an increase of $0.12 per share or 34.3% from the prior year quarter. As a reminder, the share count for our adjusted net income per share calculations is impacted by our quarter-end share price which is used to calculate common unit equivalents for exempted units outstanding at the Focus LLC level. For your reference, we have included a table of our outstanding exempted units and their respective hurdle rates as of March 31, 2019, in our earnings release. Regarding share count, we did not issue any equity in connection with our Q1 acquisitions and we do not anticipate any equity issuances in connection with our Q2 2019 acquisition activity.

Now turning to our balance sheet, for which we have recapped the key metrics on Page 15 of our supplement. We ended the quarter with approximately $1.1 billion in debt outstanding under our credit facilities, a $248 million increase since the end of 2018. This increase was primarily attributable to acquisitions of partner firms and mergers completed during the first quarter. We typically pay for our acquisitions with cash, which is financed with cash from operations and drawdowns under our $650 million revolver facility. As of March 31, 2019, our net leverage ratio was 3.88x and within our 3 to 4x targeted range. As Rudy mentioned, we are exceptionally disciplined with respect to the transactions we pursue to ensure that our acquisitions are high quality and accretive to earnings. We remain committed to our long-term target of 3 to 4x, and any net leverage above these levels we will expect to be temporary in nature.

While we see no need to raise equity to support our current pipeline, if it increases meaningfully from current levels or we experience a substantial uptick in new partner firm acquisitions, which tend to be larger acquisitions, we may access the equity markets to raise additional capital to support these incremental opportunities given the compounded growth potential and earnings accretion they would generate for us. This is one of the reasons we decided to go public. Having ready access to a greater range of financing markets provides us the flexibility to capitalize on the range of attractive growth opportunities that we see. As we've previously discussed, the IRRs we achieve on our acquisitions are highly attractive. As an example, the deals we have closed year-to-date are generated in accretion in the low double digits on a run rate basis without assuming synergies, and we see meaningful further upside this year. We are confident that the dilutive effect of issuing additional equity would be offset by reducing our net leverage and by accretion generated by our acquisitions. To be clear, we would only look to issue equity if we see an acceleration of the opportunities available to us, but we view this as a very positive dynamic for our business and our shareholders. Now I'll turn it back over to Rudy to provide concluding remarks. Rudy?

Ruediger Adolf
Founder, CEO & Chairman

Thank you, Jim. I wanted to let you know that we are planning our first ever Investor Day on November 20 of this year, so please mark your calendars. We look forward to introducing other members of the Focus team, providing further insights on our business and sharing our vision as we position ourselves for the future.
In closing, we are proud of the results we have achieved year-to-date and are excited about the opportunities we see to achieve and exceed our 2020 growth targets and in turn deliver superior shareholder value over the long term. I also want to thank our employees and partners for their hard work, persistence and focus this quarter. Without them, our business would not be where it is today. With that, we'll now open the call for questions. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from Alex Blostein with Goldman Sachs.

Alexander Blostein
Goldman Sachs Group Inc., Research Division

First question for you guys is around the pipeline. I was hoping maybe you could expand beyond what [topics] have already been announced, just the composition of the pipeline between the Focus-related deals and partner deals.

Ruediger Adolf
Founder, CEO & Chairman

Yes. Hi, Alex. Thank you for your question. So as we indicated in the fourth quarter last year, we are entering this year with just tremendous momentum, and to 25 deals year-to-date is just an excellent result of the activities we have underway, and quite frankly, we do credit our IPO and the momentum that it has given to this IPO. We're very comfortable with the pipeline going forward. It's excellent in terms of size of deals, quality of deals, diversification of deals. And while we don't know yet if the M&A gains -- well, you never know when you actually really close the transaction are you ever going to get -- we have very good visibility into this quarter, it will be geared more towards mergers. We like to do mergers. In fact, every time we see a transaction, our first screen is which of our existing partner firms could be an excellent merger -- partner in this transaction, but from an overall momentum, we are -- it's very strong and we are very optimistic as we move throughout the year here.

Alexander Blostein
Goldman Sachs Group Inc., Research Division

Got it. And appreciate the added disclosure in all the deals that you guys announced and haven't completed yet. That's definitely helpful. Any way to help us size what the earnings contribution is from the deals that haven't closed yet? I know you provided us a number on the stuff that's closed, but I was hoping to get more color on the ones that are pending.

Ruediger Adolf
Founder, CEO & Chairman

Yes. We don't really provide guidance as it relates to M&A and acquired earnings. Having said that, we are in a very, very strong position, Alex. We will announce the deals, which we do after the IPO. In the moment, we are fine and we are very comfortable, Jim and I, that our 2020 targets are achievable. In fact, there's a good chance we're going to exceed them based on the momentum in the overall business but also in our pipeline.

Alexander Blostein
Goldman Sachs Group Inc., Research Division

Got it. Last one for me, just a bit of a cleanup. When we look at the EBITDA margins for you guys, adjusted EBITDA margins, looks like they were around 21% in the first quarter. That's the lowest we've seen in a while and I understand maybe some of that is a reflection of the deal pipeline, maybe integration or from some of the larger merger deals you've announced. How should we think about that as we progress through the year? And then maybe as part of that, give us a flavor for where Loring Ward integration stands with Buckingham and the cost synergies that are yet to come out?

James Shanahan
Chief Financial Officer

So Alex, remember, our business model is unique from a margin perspective because we always think about the compensation, the SG&A cost and the management fees as one because our partners run the business. We generally buy 40% to 60% of the cash flows, so depending upon the portion that we buy that can impact the margins. So obviously, the business model drives the margins. We guide towards revenue and ANI per share growth accordingly because of the uniqueness of the model. Obviously, there was an impact due to the lag in the revenue for the advance billing in Q1, so that would impact the percentage. But based on the mix of new partners that joined in Q1, as I'd mentioned earlier, the allocation of how the mergers contribute including Loring Ward and how we share those economics with the partners, change those percentages. Obviously, from a business standpoint, the business is accelerating. We are focused on the 2 metrics, revenue and ANI per share. And it's hard for us to forecast over the long term what an EBITDA margin may be because it's really a function of the percentage acquired. But to help, at least in the short term, we provided new guidance this quarter that the EBITDA margin would be 21% for Q2.

Ruediger Adolf
Founder, CEO & Chairman

More specifically to your question on Loring Ward, we are very pleased with the integration that you're seeing. We took some charges for some of the restructuring that we did. So the Tier 1 synergies are kicking in as expected. We have seen some initial migration of clients, meaning, Loring Ward clients onto the Buckingham platform. As we have announced previously, there are quite a number of excellent discussions underway. So clearly, the transaction is performing as expected and will deliver synergies and value for years to come.

Operator

And our next question comes from Michael Carrier with Bank of America Merrill Lynch.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Maybe first just on the M&A front. If I look at the deals in 1Q, I think you said that the full quarter, EBITDA contribution was $3 million, until you annualize, you're looking at $12 million. And then it looks like the net debt rose maybe around $200 million. And I'm just trying to understand maybe what drove that because if it was just on the deals, it seems like those -- that would be a higher multiple than what we've seen in the past. But I also know there's other things going on and at year-end things can kind of move around on the balance sheet as well in terms of cash you need to. Anything else or any other missing pieces that we're missing when we're looking at it?

Ruediger Adolf
Founder, CEO & Chairman

Hi, Michael. Yes, important question. No, we don't see any expansion of multiples. Our multiples have been very consistent over a long period of time, which is true both for holding company transactions as well as mergers. Of course, adjusted for size, the larger deals do get higher multiples. As you know and that we have explained in the IPO process, you can't really determine the multiple we are paying based on these 2 numbers because the increase in cash has many different factors. Yes, one of them is capital deployed both for holding company deals as well as merger transactions. So this math is simply not possible based on these numbers, but the key takeaway is that our multiples continue to be very much in line with what we have seen historically, and by the way, the same is true from a pipeline perspective.

James Shanahan
Chief Financial Officer

All right. And then just a supplement to what Rudy said. Obviously, if you see in the Q, footnote 5, there's a reference to the cash at close-end was $204 million. If you look at the change in cash on the balance sheet from December to March, the cash went up by approximately $50 million. Part of that was used for deal activity in Q2.

Michael Roger Carrier
BofA Merrill Lynch, Research Division

Okay. That's helpful, and then can you provide I think -- given the volatility that we saw in the markets both in the fourth quarter and the first quarter, maybe any color -- when you think about the organic growth, whether it's the quarter, trailing 12 months, but when you guys look at the contribution from either your firms bringing in net new assets or new money, obviously we had the market volatility. And then given that it seems like the add-on deals is more elevated, just how we should think about that going forward as a contributor?

Ruediger Adolf
Founder, CEO & Chairman

Yes. So clearly, based on our billing methodologies, we saw more of an impact of the markets [that we're in] -- we saw the impact of the markets in the first quarter. And yes, I think we did -- of course, certainly had [claimed] very well given the market disruption that we have experienced. Client retention, new client acquisition, it's very consistent, quite frankly the first quarter we had no measurable impact on any of these numbers from what we can see here, which of course is the power of the RIA model, which is a very consistent, steady growth model that really is independent of the overall -- from a client acquisition/retention perspective in both the markets we're doing. As I said on prior calls, with, quite frankly some of this volatility from an advice proposition perspective is actually a good thing because it really demonstrates the quality of prudent fiduciary advice, which is, of course, the business that we are in. Now importantly, the formula that we gave you guys here in the fourth quarter in December where we showed the impact of market -- equity market dynamics on our revenues here exactly is what basically helps to get to the numbers that we have shown in the first quarter. So you have a very high level of transparency on the market impact, but then at the same time it is a very steady client business through just about any business cycle.

Operator

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

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

On the 4 additional transactions you signed and are pending close, can you give us a sense of the size of those deals? And how many are partner firm deals versus mergers?

Ruediger Adolf
Founder, CEO & Chairman

Yes. Hi, Chris. So first time we did this, when you go to Page 14 of the supplement that we are showing here is all the deals that we have done plus the deals that are pending closing. It's kind of -- for these 4 deals, it a little more of small and medium-sized transactions kind of very much in the sweet spot of what we are doing, but of course, we're not disclosing specifically economics consistent with our past practices.

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

Okay. And then in the quarter -- I'm sorry, if this is in the supplement, too, but why did the number of partner firms increase by 2, but you made 3 investments in the quarter?

Ruediger Adolf
Founder, CEO & Chairman

So again, look at Page 14, where we basically break out the number of new transactions. Now what we have done this quarter, which by the way is a pattern you will see from time to time in our portfolio because we like to -- this is a great way for us to help our partners, we had one merger, actually, 2 mergers across the portfolio and then one split between our partner firms. So these things happen when your partners get to know each other, they meet each other at the partner meetings, and actually we just completed one of them yesterday. And then ultimately, they say, you know what, our business models are very compatible, and why don't we merge practices because we can better serve clients, we can -- yes, there are synergies between these firms. It very often leads to a succession where one partner gets to know another partner, and say you know what, you would actually be a great succession plan for us. So we had these in this quarter, which distorts the number of transactions that we are doing.

James Shanahan
Chief Financial Officer

Yes. So just as a real example, our partner firm Resnick in Westport, Connecticut joined, they merged with our other existing partner firm GYL in Hartford. Geographically, they're close together. They work well together. They've known each other for a period of time. It was a win-win for the partners and enhanced client services for the clients obviously as well.

Ruediger Adolf
Founder, CEO & Chairman

But very important to note that actually, these -- in just about all cases, it's partner initiated. So it's the partners wanting to get together, and then we're, of course, the helpful hand behind these transactions. Over time, quite frankly, this can be economically very attractive for the partners and for us. But it's one of those areas where we never turn the entrepreneur into an employee. So we have a visible hand -- the invisible hand in the background is really motivated by what our partners' priorities are.

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

Okay, makes sense. And then lastly, guys, looks like your -- the ownership percentage increased a bit quarter-over-quarter. I'm calculating 46% to 49% just using a proxy. Can you help us understand why the ownership percentage might have increased quarter-over-quarter? I'm guessing maybe Loring Ward had an outsized effect on that but any more detail will be great.

Ruediger Adolf
Founder, CEO & Chairman

What ownership are you referring to? Which one was that?

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

I'm just looking at basically management fees as a percentage of operating income and then taking the inverse of that ratio as kind of a proxy for your ownership.

Ruediger Adolf
Founder, CEO & Chairman

Okay. I got it. So it's basically the holding company. Yes. So this is a reflection of the revenue dynamics in the first quarter or really how the first quarter market impacted our first quarter revenues. And actually, it's a very small example, it's a really interesting example of some select cases. Our preference basically protected us. So it's a small application of what we keep on talking about because it's such an important and powerful part of our economic model, that then there is a temporary lower profitability, lower revenues, for example, because of the markets in the first quarter. Management fees automatically and mathematically adjust in the subject to a preference in -- and that is a part of the effects that we are seeing in the numbers here.

Operator

And our next question comes from Owen Lau with Oppenheimer.

Kwun Sum Lau
Oppenheimer & Co. Inc., Research Division

First of all, thank you for the additional disclosure. I really appreciate it. A couple of questions related to Focus Client Solutions. Focus is partnering with the banks and nonbank lenders. So is it fair to assume that Focus is not going to take on any balance sheet risk? And also, maybe can you please talk more about the fee structure of the new product? How many banks and nonbank lenders in the network right now and also, the incentive for the lenders to join the network?

Ruediger Adolf
Founder, CEO & Chairman

Yes. Owen, thank you, and yes, we always appreciate feedback on the further disclosures in the supplement. You know we're doing this for you guys and the more helpful it can be, the better. Thank you for the question on FCS. I was dying to get this question because it is such an important addition to what we do for our partners. So firstly, most important is no, this is not balance sheet risk that we are taking. We are basically using our scale and purchasing power to be a conduit to a group of banks. It is currently -- it's approaching 15 at this point. And what we are doing here is providing our partners access to cash and credit solutions that they simply could not create on their own by themselves and, ultimately, of course, to the benefit of our clients. So cash is a very hotly debated area within the industry. Quite frankly, there are not enough competitive solutions out there in the -- from the traditional providers. So what we created here is basically a suite program, where the money comes from our -- from the clients and then gets FDIC insured onto deposit programs of our network of things, and that's a very powerful capability. It is vastly superior to the traditional products. There's 200 basis points type of rates that they are based on these FDIC insured deposits. It is very good for the banks because the banks don't have access to this type of clientele. That of course, we as RIAs have in the ultra-high net worth and high-net-worth space. It is very efficient for them to collect deposits and these efficiencies they are willing to share. We have to basically offer highly competitive, highly attractive rates to our clients with FDIC insurance.

Similarly, on the credit side, again nothing is on the Focus balance sheet of course we are not a bank. But these are non-purpose loans. These are commercial lending solutions. These a specialty finance, like we are working on an aircraft loan right now, other asset-secured loans and residential which are often very large mortgages. And there, we have the power of the network to basically create highly competitive offers to our clients that ultimately, quite frankly, really none of our partners would have had the scale to create this type of a capability on their own. So early days, we just launched it. We wanted to mention it because it's going to be very visible, and I'm sure the industry press will pick up on it. So it's a highly differentiated program. Won't have any big impact here this year, but over time, we think it is a very powerful contributor to the value proposition that we have for our clients and then, of course, over time to the organic growth of the overall business.

Kwun Sum Lau
Oppenheimer & Co. Inc., Research Division

That's very, very helpful. I have another question related to your tech strategy. So Morgan Stanley acquired Solium which provides equity administration services. Given your acquisition of Loring Ward and your recent partnership with HiddenLevers, do you see more acquisitions or partnerships with software companies as a way to drive both revenue and also improve customer experience?

Ruediger Adolf
Founder, CEO & Chairman

Yes. So Owen, we see ourselves not as a technology company but as a major beneficiary of the technology solutions that are emerging in our industry. And quite frankly, we are looking at this business now than how it was 15 years ago, it's the level of choices, functionality, flexibility, pricing that is now offered by -- in a real portfolio of different vendors to this industry is terrific and a natural enabler of what we are doing. We are the largest client of just about any technology or other vendor to this industry simply because of our scale and relative scale versus everybody else. And our philosophy is to use our purchasing power and expertise, we have a dedicated operations and technology team, to ultimately help our partners access the best possible solutions at the best possible price with the possible service levels that they can.

We are not in the business of coding. We are not in the business of developing technology. Quite frankly, I never wanted to build my own legacy systems and legacy problems. I'd rather use whatever the best and brightest vendors with the best economics out there to enable and empower our partners. We have -- yes, we have helped a number of these innovative firms [deal] rather quickly, when we see a leading solution, we get it into 1 [fronts], 2 [fronts], 3 [fronts], then we can scale it up. We haven't made investments in these firms. Our only investment in this area has been for smart assets which is actually a [prime B], which is really a lead generator, it's not technology firm by itself. But we are very happy with this investment. We are very happy with their performance, and quite frankly, yes, we have learned a lot from them and I think we have made some very good contributions to their growth.

Operator

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

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

So as partner firm level acquisitions or mergers as you're calling them become more important, as you spoke to earlier. Can you remind us why you're not able to provide us the acquired base earnings of those mergers?

Ruediger Adolf
Founder, CEO & Chairman

Yes. Because -- hi Pat. Because the economics of these transactions are just very, very different. So these attractive multiples, it tend to be lower multiples than what we would do in the holding company. But the real economics comes from the synergies that these deals are creating with our partner firms. Yes, once we have the firms, we merge them together, and it's blended economics that, as I said, can have significant revenue synergies but not significant expense synergies or other effects. So by just disclosing the purchase price versus the other guy acquired is, quite frankly, would not be a very helpful number because it's a very incomplete number which has been consistent of course with the way we approach the markets and the IPO.

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

Okay, that makes sense. And then turning to the competitive landscape. Any change in terms of the amount of money kind of going after some of these RIAs that you're competing against? Or are things pretty stable on that front?

Ruediger Adolf
Founder, CEO & Chairman

This is an industry where you always got big announcements and very little follow-through from the [NCIs] As they come and go. The many -- most of our opportunities through our history have been proprietary to us, have been non-established relationships where yes, our prospects said no for us -- to us year after year, but then the stars were aligned and they were ready to do the transaction. We were the first call and, quite frankly, in many cases, the only call. And it is because of the uniqueness of our value proposition. I firmly believe if there are 3 things you want: you want to remain an entrepreneur; you don't want to turn into some banks or whatever into a lease [somewhere]; you want to have access to value-added services and you want to have access to capital. If these are the 3 things you want, I firmly believe we're the only game in town. And we're not just the only game in town, but we also have the track record of delivering against every one of these dimensions deal after deal after deal, now with our 62 partner firms.

Now the industry, if you read industry reports, roughly there are about 100 deals or so happening in the year, at least how some of these services are tracking it. And I believe many observers of the industry believe that this is probably half or less than half what naturally this industry should be doing from a deal velocity perspective. So what this means is there's an ever-increasing backlog of opportunity where ultimately at a one point these transactions need to clear. Because it's the -- as I said in my remarks before, this is what the most stunning numbers that I've ever seen. Yes, in the next 10 years, one way or the other, just in the RIA space, $2 trillion, $2 trillion in client assets are going to change advisers. And there's no big assumption or anything behind it. It's just based on where every deal all of us unfortunately are [a year older] in the next year and it's this demographic change that creates this $2 trillion opportunity. By the way, when you [text] in the wirehouses, and the wirehouses have a very weak solution for retiring advisers. We see this again and again. You can probably double this number. So compared to the size of the opportunity that is ahead of us, and quite frankly, the -- our momentum and our ability to address this market, we have a long runway of extraordinary and accretive growth ahead of us which is of course -- it is the essence of the story behind the Focus business model.

Operator

Our next question comes from Oscar Turner with SunTrust.

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

First question is on the leverage. So company's near the high end of its long term 3 to 4 turn leverage target. Just wondering does that have any implications for the pace of M&A as we look forward towards the next couple years? Or do Jim's comments about the equity issuance imply the pace will continue but the funding will shift towards equity?

Ruediger Adolf
Founder, CEO & Chairman

Yes. Hi, Oscar. Yes, very important question. And as we have always said, we are committed with -- to the 2 to 3x leverage over the long run but we've also stated that occasionally, we may go a touch above the 4x if we simply see opportunities that are very attractive and highly accretive and we believe it is an excellent way for us to deploy capital. We don't have any immediate need to raise capital to fund acquisitions. We have plenty of capacity under our revolver, $355 million. But yes, we don't really envision that leverage is kind of a need be factor versus our financial objectives. However, to be clear, if we are demonstrating -- momentum is just terrific. There's no other way to describe it. And as I explained before, to Alex's question on pipeline, where we don't really see any change here in this momentum. And if there's a need to tap into the markets, obviously, we are going to do it. We think it's actually a very good thing to do. That's why we IPOed, which gives us the financial flexibility that we hoped we would get. But at this point, Oscar, we don't think that there is an immediately need but it is terrific that now as a public company we have this opportunity to do exactly that.

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

And second question just on Loring Ward. How should we think about timing of any revenue growth or margin upside following the integration? I know you've previously discussed the goal of migrating temp assets to the RIA over time.

Ruediger Adolf
Founder, CEO & Chairman

Correct. Yes. So when we announced the Loring Ward transaction and, Jim, I'm not sure you covered this already, but we have this video on our Investor Relations website where you have the 2 CEOs talking about the opportunity, which I thought is actually very insightful. But we had a 3-stage approach to this. One was basically it was immediately accretive to the transaction as structured. Two, there were a number of tangible cost synergies that are happening as we speak and you're seeing the restructuring charge that we took for some of these, and quite frankly, it is absolutely on track. Then we saw in step 3 the migration of assets over from -- that came into the RIA. We see this as kind of a billions-a-year type of an opportunity. The combined temp assets are about $35 billion between Loring Ward and Buckingham. They have a long history -- Buckingham has a long history to offer this, we call it the life -- adviser life cycle solution to their clients. We have seen, with the Dan Goldie transaction, with the first of Loring Ward firms and also the largest or one of the largest migrate over to the Buckingham solution, quite frankly ahead of the timing that we expected. That was a very terrific, very, very good step and there are many conversations underway as we speak. So the deal is doing exactly what we hoped it would do. Quite frankly, there were -- some of the expenses of the transaction that took us a little bit longer, but yes, we feel this is very good in terms of where we are. And yes, this migration benefits, you have Page 3 of the opportunity here, are happening and are happening. Now this was never predicted to be an avalanche, but a steady trickle of billions of dollars moving from the temp into the RIA.

Operator

Our next question comes from Kyle Voigt with KBW.

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

Maybe just a couple of follow-ups. One follow-up just on net leverage ratio. It seems like you're willing to go above that 4x rate at the high end of the range. But I was wondering how long you'd be willing to run above 4x net leverage before deleveraging back into the range. And is there an absolute max net leverage ratio we should be thinking about moving forward?

Ruediger Adolf
Founder, CEO & Chairman

Yes. So I think we are very consistent with what we have always said, 3 to 4 is the target. Occasionally, we go above the target, but then we'd see this temporary and would then try to deleverage again. It's really a function of the -- this tremendous deal velocity that we are demonstrating quarter after quarter in the trends of the pipeline. It is also a function of where we're using as we explained in the past, all of our deals are basically all cash at this point. But then there are step-out opportunities, Kyle, like this Loring Ward transaction which will see a slightly less than half of the consideration of stock. The other deals we're working on, very much larger percentages came to stock and it's just a question of when they are -- when these deals hit. So the way Jim and I are looking at this, 3 to 4, temporarily may go a little bit above 4. But based on our visibility into the pipeline, we are basically running at these levels because we know that we can get below the 4 again, when we kind of work through the pipeline and the pipeline dynamics in terms of consideration news. And then yes, as Jim mentioned, and as I said before, if we feel there is a real need for some more capital, then of course we would be willing to tap into the markets, which of course is this really powerful feature that we have as a public company. I have a little bit of a bias for it whenever the time is right simply also because we would like to increase the flow of course of the market and this would be a very good way to do exactly that.

James Shanahan
Chief Financial Officer

Yes. Just a couple of things. Obviously, our transactions are very accretive, so it's positive from a shareholder perspective, but our model remains consistent. The transactions come with preference. I mean just as a data point over the last 2.5 years, we added over 100 million of preference, so the models will be consistent. It can be temporary, and then we would delever down. Obviously, we look at all alternatives, another alternative is if there's a large transaction, we may use our public equity or, for instance, in Q4, we did with Loring Ward. We look at all the elements of the capital structure to ensure the accretion of the transactions to the shareholder. And we stand fast to the 3 to 4 leverage over time and anything currently would be temporary in nature, maybe 1 or 2 or 3 quarters at most.

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

Okay. And so -- all right that's fair enough. And then one more follow-up for me. And that just on the EBITDA margin, I appreciate some of the additional disclosure you made there, too. I think if I got it right, some -- the acquisitions added an additional I think $11.9 million revenues $2.2 million EBITDA which is roughly an 18% incremental margin. So that obviously that impacted some of the margins sequentially as we're looking 4Q to 1Q. But overall, as we're looking at the total company, I think the incremental margins for the company when we look at EBITDA margins, were something like 2%, so it was just really modest growth in EBITDA sequentially. I'm just trying to understand like from 4Q to 1Q, is the margin compression above and beyond the kind of mix shift that we're seeing? Is it from some of the revenue headwinds that your partner firms are facing in the fourth quarter specifically -- or the first quarter specifically that are now going to reverse a bit? Or is there additional corporate overhead in expenses that also grew up in the first quarter? And did that play a part in the margin compression?

James Shanahan
Chief Financial Officer

Yes. I think it's -- one's a function of the lag of the revenue as you indicated. The second is it's the constant mix of the economics between new partner firms joining as well as mergers coming on and how we share those economics. And do those economics, when people join through mergers, are they coming on as employees or are they coming on as partners, so there would be the management fee. So there's a constant flux on that, I mean it is obviously nothing structural going on here. From the EBITDA, it's just how the waterfalls work with a lot of our partners and the transactional activity and that's why we remain focused on revenue and ANI per share as the statistic. But we wanted to give additional color to help you forecast so we provided the 21% [retail] margin estimate for Q2 as well.

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

And I guess there's nothing to call out with respect to kind of corporate overhead or the holding company expenses or anything?

Ruediger Adolf
Founder, CEO & Chairman

No. It's very consistent. The thing that does happen is just transaction-related. It's basically some transactions simply are more expensive than others. So the expenses related to the Loring Ward transactions which are simply higher than what we typically incurred specifically to the business model. These are all onetime effect, but structurally, there's absolutely no change in what we're doing.

Operator

Our next question comes from Matthew Roswell with RBC.

Matthew Van Roswell
RBC Capital Markets, LLC, Research Division

Just a very quick question, and I know it's early days, but you've expanded recently internationally. I was wondering if you can give a quick update on how that's going. And whether you've noticed any changes in the market relative to the U.S. market?

Ruediger Adolf
Founder, CEO & Chairman

Yes. So internationally, as you know, it's still a tiny part of our overall business. We disclosed 2% of our revenues roughly is coming from international. However, we are very excited announcing the Escala transaction in Australia and the Prime Quadrant transaction in Canada both of them in their respective markets are highly established, highly sophisticated ultra-high net worth managers. In fact, I had the pleasure at our partners meeting earlier this week to meet some of the Escala clients who were on a study tour and it's just a very, very impressive group that joined us.

So we like international because we know our model is quite unique here in the U.S., although others are trying to copy it one way or the other, but reality is in these markets, our model is kind of unparalleled. We're really doing something to a changing environment particularly Australia, where we work with the Royal Commission, where the traditional wealth management model is just fundamentally turned upside down and it's created a tremendous white space that, quite frankly, pushed the traditional players out of the market, and there's more firms that look like Escala, innovative, small, nimble, but small by the standards of the mega players, but it's also a multibillion player to really feel its worth in our capital and our expertise and the access we provide to ultimately help them grow -- continue on their organic growth path but really ultimately, like so often happens with our firms in the U.S., we hope for Escala to turn into a platform for other firms in Australia that, quite frankly, they probably couldn't do without us. So certainly not on the scale of what we are envisioning. So early indications for these deals and of course, we have been in Canada before, are very strong. We really like this space despite the painful long flights to Australia. But we think that over time, this will be tremendous growth contributors to what we're doing here in the holding company.

Operator

And our next question comes from Alex Blostein with Goldman Sachs.

Alexander Blostein
Goldman Sachs Group Inc., Research Division

I just wanted to double check on this new cash and lending relationship that you guys sort of started to establish. So is there any direct economics on Focus' revenues? Or this is really going to be more of offering another solution for the customers and your RIAs hoping them -- hoping that, that's going to accelerate sort of inorganic growth opportunities? That's kind of part one. And then part two, can you give us a sense how much in cash they currently have across the whole platform?

Ruediger Adolf
Founder, CEO & Chairman

Yes. So FCS, Focus Client Solutions is the new offering. Again, don't expect any measurable impact in 2019. We just launched the program. However, yes, there will be economics to our partners, very quite attractive economics, particularly given that these were economics they didn't really participate in before like on the lending side or on some of the cash alternatives here, that ultimately, are a important multi-data for them to participate in these programs. But first and foremost, it is just broadening, deepening, increasing the share of wallet if you want, broadening the advice spectrum that our partners can do for their clients. And yes, we've seen it already with some of the initial discussions or advice that our partners gave that even on transactions that ultimately did not close with us, just the ability to advise show alternatives, helping the clients to make a decision. It ultimately led to an extension of the relationship that these partners had with these specific clients. So yes, we get economics, our partners get economics and we get our share of the economics, of course, always consistent with our model. In fact, it is important this year -- this is not its full -- [some of the] focus goes into the product business. We are not interested in going into the product business, but we are in the business of providing our partners and their clients get better access to superior solutions than what they had before.

James Shanahan
Chief Financial Officer

Yes. Think about improving the client's experience providing a value add to our partnership which will help them grow their organic revenue growth over time. But as we had indicated earlier, we don't see any significant impact on our 2019 financials.

Ruediger Adolf
Founder, CEO & Chairman

Yes. And to the other question, yes, I don't want to give you a specific number, but yes, we touch roughly about $10 billion in cash throughout our relationships roughly. And that is only part of the cash opportunity because much of this type of cash is actually -- are not sitting in the traditional custodial accounts but accounts outside of it. So this is a very sizable opportunity over time. And whether you look at the size, of course, of our business, on the credit side, it's a multiple of that. And quite frankly, these are areas that our partners traditionally would not have been involved in. So we in turn think this it is actually very powerful for them.

Operator

And I'm not showing any further questions at this time. I would now like to turn the call back over to Rudy Adolf for any further remarks.

Ruediger Adolf

Founder, CEO & Chairman

Yes. So thank you all for your interest in Focus, and we look forward to speaking with you all again on our second quarter call. Thank you.

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