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PRESENTATION

Operator

Good morning. I would like to welcome everyone to the Focus Financial Partners 2020 Fourth Quarter and Full Year 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 Communication. (Operator Instructions)

As a reminder, this conference is being recorded. Mr. McGranahan, please go ahead.

John 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 that Focus's 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, including, without limitation, uncertainties surrounding the current COVID-19 pandemic. 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 welcome to our call today. As always, we value your continued interest in Focus. 2020 was an unprecedented year, and I'm extremely proud of what we accomplished. We delivered record financial and operating results despite the pandemic-related challenges. We are in a unique position within financial services, delivering strong growth and margin expansion during a time of crisis, while simultaneously reducing our net leverage ratio.

Our business demonstrated its resiliency and consistently outperformed relative to our expectations. In many ways, the story of 2020 was that scale matters. Our scale was instrumental in helping us, not just weather the storm but to move past it and thrive. The depth, breadth and diversification of our partnership, combined with our strong M&A momentum and robust value-added services were all instrumental to this outcome. These dynamics position us for what we believe will be an even stronger year in 2021.

We delivered excellent results for our shareholders, generating nearly $1.4 billion in full year revenues, the highest in our history, together with adjusted net income, excluding tax adjustments per share of $2.46 and tax adjustments per share of $0.47.

These results demonstrate the value of a well-designed financial model and the outstanding job our partners did in managing their business. Our cash flow grew substantially, with 2020 last 12 months cash flow available for capital allocation, up 22.6% and reaching $200.5 million, enabling us to limit our debt usage in funding our M&A activities as our transaction volume increased. The tax efficiency of our acquisition structure continues to generate substantial value for our shareholders and enhances our cash flows. Our partner firms successfully navigated an evolving macro backdrop remaining agile and demonstrating an unwavering commitment to exceptional client service.

2020 was a year in which the value of prudent fiduciary advice was especially apparent. The finest hour for our industry as a whole, and our partners, who are well equipped to face the challenges posed by the pandemic. They did not experience any tangible client attrition despite volatile markets. In 2020, we completed 25 transactions, capping one of the best years in our history for M&A volume. We added 7 new partners and completed 18 mergers on behalf of our partner firms.

We expanded our presence in key wealth management markets across the U.S. and internationally and extended our track record of acquiring excellent firms that are value accretive. Through mergers, our partner firms are aggressively capitalizing on the substantial industry growth opportunity that is emerging. Of the 10 partner firms who completed a transaction last year, 3 completed their first-ever merger with over 50% of our 71 partner firms having completed at least 1 merger since joining Focus and 20% completing 3 or more.

We also remained at the forefront of the industry by providing innovative business and client solutions last year. These resources enable our partner firms to meet the growing needs of their clients in an increasingly complex operating environment. By taking advantage of our scale, best practices and expertise, our partners are able to deliver ever-increasing value to their clients, which is an important catalyst for organic growth.

For example, our partners continued to benefit from initiatives in business development, technology enhancement, including cybersecurity operations and enterprising optimization. We'll remain actively engaged in these areas over the coming years. We also continue to grow Focus Client Solutions, or FCS, our cash credit offering. Last year, FCS advised on loans and other credit structures approaching $1 billion for partner clients.

Last month, we announced a joint venture with Orion Advisor Solutions, which will make the cash credit and related services developed by FCS available to more than 2,000 wealth management firms on Orion's WealthTech platform. Orion is a proven leader in adviser technology with whom we have a long-standing relationship. This is a significant new initiative in beta stage that leverage the collective expertise of both FCS and Orion.

The FCS team manages all aspects of delivering these services, making it extremely convenient for advisers to use them. Strategically, the JV enhances our competitive position by further demonstrating our leadership in shaping the adviser ecosystem. While an important and innovative initiative, we do not expect the joint venture to have a meaningful impact on our results of operations in the short term, but believe that this joint venture will create important value over time.

The Connectus model is another outstanding example of how we are leveraging our scale, value-added resources and expertise to help wealth management advisers better serve their clients, optimize the efficiency and solve for growth. Connectus complements our growing partnership and addresses an important strategic need in the independent wealth management market. It adds to our existing value proposition by enabling founders and teams who want to continue managing their client relationships and boutique cultures by gaining the operational efficiencies of shared services. We anticipate that Connectus will continue to expand globally and believe that it could quickly become one of our largest partner firms.

Yesterday, we announced the launch of Excelerate, an innovative new program that is unique to Connectus. Excelerate is highly curated, leveraging long-standing relationships with premier service providers already used extensively by Focus' 71 partner firms. Through its emphasis on shared resources, Excelerate will create significant efficiencies and scale benefits for advisers and clients alike. It delivers capabilities across 5 business components, which will substantially enhance Connectus advisers' abilities to accelerate growth by offering comprehensive, integrated and highly personalized client solutions.

Clearly, in 2020, we demonstrated Focus value to our partners and clients, and therefore, our ability to sustain growth, improve margins and maintain our net leverage ratio targets. Therefore, as we transition to 2021, we are reaffirming our strategic vision for the growth and scale that we believe Focus can achieve by 2025. Revenues of approximately $3.5 billion and approximately 100 partner firms. Also, we plan to revisit our target for profitability as the pandemic subsides. Our initial goal of adjusted EBITDA of approximately $840 million was based on a margin of 24%. We believe our partners have learned how to become more efficient during the pandemic end. While still early days, we believe that as Connectus scales, it will further enhance our long-term adjusted EBITDA margins.

We are operating in an industry-leading scale and have substantial momentum, which is amplified by Connectus. Based on current market levels, we believe these dynamics will enable us to deliver full year revenue and adjusted net income, excluding tax adjustments per share growth in excess of 20% in 2021 and return to double-digit organic revenue growth while maintaining our targeted net leverage ratio of 3.5x to 4.5x. On the M&A side, we have closed 1 additional Connectus deal in the U.K. and announced 1 partner firm addition year-to-date. And we anticipate announcing another partner firm acquisition shortly, which will be a substantial transaction for us. We expect that our M&A activity in Q2 will be strong, and we have a significant pipeline with a good mix of direct deals, mergers and Connectus acquisitions that carries well into 2021.

We also anticipate that we will further expand our international presence and Connectus will accelerate the pace of activity. After an outstanding Q4, we are continuing to benefit from the surge in industry M&A activity. Based on where we stand today, we expect that 2021 will be an exceptional M&A year for our business. We estimate that we will have about $1 billion in firepower to invest over time between our unfunded revolver, cash on hand and cash flow generation. Our value proposition continues to resonate strongly in the industry and mergers are adding significant value to our partners. While we will remain disciplined in our acquisition process as always, we see many attractive opportunities to deploy capital.

In closing, we are extremely pleased with our 2020 financial performance and strong finish to the year in terms of M&A momentum. As we turn to 2021, we are confident in the forward potential of our business as we advance towards our 2025 objectives. There's a phased evolution to a business like ours. The scale and profitability we have today enables us to invest in our future growth in ways that would not have been possible even 3 years ago and 2020 further reinforced the value creation of our scale advantages.

The diversity of our partner portfolio creates numerous opportunities to grow, and we believe that our unique model will continue to make us the partner of choice. I have shared Andy Grove's thinking before but thought it was worth repeating, "Bad companies are destroyed by crisis. Good companies survive them. Great companies are improved by them." The crisis of 2020 strengthened Focus beyond our expectations and significantly advanced our unique competitive positioning. I'm very excited about our momentum in 2021 and beyond, and I look forward to seeing how the year unfolds.

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

James Shanahan - *Focus Financial Partners Inc. - CFO*

Good morning, everyone. Despite an unprecedented year with many uncertainties, our business demonstrated remarkable resiliency, our growth and financial performance were strong, and our M&A momentum was excellent. The ongoing stability of our revenue model and high proportion of fee-based and recurring revenues continued to drive strong growth in our cash flow generation. It bears repeating that the combination of consistently high cash flows invested in accretive transaction and the large and growing tax shield created by our M&A activities are unique in the wealth management industry and generate substantial shareholder value.

Now turning to the details of our P&L. Our Q4 results were excellent, coming in well ahead of our expectations. We recorded revenues of $379.7 million, 10% above the top end of our estimated range of $335 million to $345 million, due in part to our organic revenue growth rate of 7.3%

versus our initial estimate that would be essentially flat. This revenue outperformance was the result of better-than-expected family office-type revenues associated with clients in the entertainment industry, where client activities are improving, favorable market conditions for our revenues build in arrears, and certain nonrecurring revenues associated with client activities and incentive fees earned by certain of our partner firms, including the OCIO business we recently acquired. Approximately $19 million of this revenue outperformance will not repeat in Q1, but could occur in future periods.

Our Q4 revenues of $379.7 million were up 11.6% year-over-year with approximately $24.6 million or 63% of that increase coming from organic growth by our partner firms, inclusive of mergers, demonstrating the power of scale across our 71 partner firms. The remaining $14.8 million or 37% of the increase came from partner acquisitions during the year. Of the approximate $19 million revenue outperformance that will not repeat in Q1, approximately $13.8 million of that favorably impacted our Q4 organic revenue growth rate. Excluding this amount, our Q4 organic revenue growth rate would have been 3.2%, which reflects strong year-over-year growth from an exceptionally strong Q4 2019 and also considering the live event revenue headwinds that our family office firms continue to experience.

Our Q4 adjusted EBITDA was $90.7 million, 9.3% higher than the strong prior year period, and our adjusted EBITDA margin was 23.9%, slightly ahead of our expectations. Our adjusted net income excluding tax adjustments per share was $0.72, up 14.3% compared to the prior year period, and our tax adjustments per share were $0.12, unchanged from the prior year period.

On a full year basis, our revenues were a record $1.36 billion, an 11.7% higher than the prior year, driven in part by an organic revenue growth rate of 7%. Our adjusted EBITDA was $321.8 million, 19.2% higher than the prior year, and our adjusted EBITDA margin was 23.6%, 1.5 percentage points higher, primarily reflecting lower levels of SG&A expenses relative to revenue as a result of COVID. Adjusted net income excluding tax adjustments per share was $2.46, up 25.5% year-over-year, and our tax adjustments per share were $0.47, up 11.9% from the prior year.

Despite the pandemic-related slowdown in first half M&A activity, 2020 was one of our strongest years ever. We closed 7 new partner firms and 18 mergers for a total of 25 transactions. In Q4, we closed on 5 partner firms and 10 mergers. And Q1 to date, we have closed the merger for Connectus in the U.K. We also signed a new partner firm, Hill Investment Group and anticipate signing the additional new partner firm Rudy referenced shortly, which has about $5 billion in client assets.

We estimate that the 5 partner firms added in Q4 will add an incremental $2.7 million in Q1 adjusted EBITDA due to the mid period closings. We estimate that these 2 partner firm transactions could contribute approximately $21 million in total revenues and approximately $8 million in acquired base earnings on an annualized basis. Due to the timing, they will not significantly impact our Q1 results.

As Rudy noted, our M&A momentum heading into 2021 is excellent. M&A activity across the industry is increasing, and our model continues to resonate for direct deals and mergers alike. Connectus gives us a third acquisition model, further expanding our addressable market, both in the U.S. and internationally. The opportunity set is considerable in Australia, Canada and the U.K. The 3 countries where we have focused our expansion efforts. According to industry sources, in U.S. dollars, approximately $1.7 trillion in client assets is managed by approximately 100,000 advisers in Canada. And in Australia, 25,000 advisers manage approximately $600 billion.

While the actual closings of transactions is always hard to predict, our pipeline for 2021 is substantial across all components of our M&A business, including at many of our partner firms who are increasing their merger activity to accelerate their growth. Connectus also has a strong pipeline and will further expand its global footprint in 2021. In anticipation of this, we increased the size of our term loan by an incremental $500 million in January of this year, upsizing from our initial $375 million launch in a heavily oversubscribed transaction.

We used a portion of the proceeds to repay the borrowings under our revolver to reset our dry powder. This transaction did not impact our net leverage ratio. As Rudy mentioned, with a firepower of about $1 billion, we are well positioned to capitalize on future acquisition opportunities. However, our acquisition strategy remains based on a highly selective approach, supported by strong multiple discipline. We are stringent about only pursuing acquisitions that meet our return criteria and are a good fit for our partnership. We are also disciplined about the multiples we pay, which are competitive, but reflect the unique benefits of becoming a Focus partner firm. We acquire high-quality entrepreneurial firms with substantial growth potential, who want to maintain their operational independence and will benefit from our scale advantages, value-add resources and permanent growth capital.

Now for a few comments on our Q4 expenses and cash flows. Management fees, our second largest operating expense, which are tied to the profitability of our partner firms, were approximately $102.4 million or 27% of our revenues. We and our partner firms remain disciplined and nimble in controlling discretionary expenses, even with the increase in M&A activity. Similar to Q3, discretionary expenses remained low as most of our partner firms continued to work remotely. Additionally, our borrowing costs remained low as we are a significant beneficiary of the low interest rate environment. In Q4, we recorded noncash charges totaling $19.8 million, reflecting changes in the fair value of estimated earn-outs pursuant to our Monte Carlo simulations under GAAP. Stronger performance and market conditions drove an increase in the estimate of these liabilities as of December 31.

Our full year 2020 cash flow available for capital allocation was $200.5 million, 22.6% higher than the prior year period. The increase resulted from growth in the business, the new partner firms we acquired and our increased adjusted EBITDA margin. We paid $7.7 million in earn-outs during the fourth quarter, and we estimate that we will pay about $10 million in Q1. Our cash flow for future periods will continue to be enhanced by our $1.7 billion unamortized gross tax shield as of December 31.

Now turning to our Q1 expectations. Given that the pandemic-related uncertainties continue to persist, we will continue to provide quarterly guidance. We estimate that our Q1 revenues will be in the range of $375 million to $385 million. This range reflects an estimated organic revenue growth rate of approximately 7% to 10%. As mentioned earlier, our Q1 guidance excludes the $19 million nonrecurring revenue from Q4 as well as an estimated $10 million in typical Q1 revenue seasonality related to family office revenue activities, although we expect the $10 million in seasonal revenues to recur in Q2. Additionally, we estimate that our Q1 adjusted EBITDA margin will be about 24.5% and with current market conditions, we expect our full year 2021 adjusted EBITDA margin to be 24% or better.

Now turning to our balance sheet. As of December 31, we had approximately $1.5 billion in debt outstanding, and our net leverage ratio was 3.89x. At current market levels and with the acquisitions we expect to close in Q1, we anticipate that our Q1 period end net leverage ratio will be between 3.75x to 4.0x. We remain committed to maintaining our net leverage ratio between 3.5x and 4.5x, and we continue to believe this is the appropriate range for our business, given our highly acquisitive nature and highly attractive cost of debt. We continue to prudently manage our balance sheet. It is also important to remember that our strong cash flow generation enables us to limit our use of debt as we grow our business.

To conclude, we delivered a very strong quarter in Q4 even when compared to the excellent Q4 2019 we had, and our 2020 results overall were excellent, particularly given the macro backdrop. Our model has proved its resiliency and stability in unprecedented market conditions, and our partner firms performed exceptionally well. We further evolved our acquisition strategy through Connectus and enhanced the business and client solutions we offer to our partner firms. We are optimistic about the outlook for our business in 2021, and we are well positioned to continue capitalizing on the secular tailwinds shaping this industry.

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 Craig Siegenthaler with Crédit Suisse.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - MD*

So my first one is on M&A, and we were pleased to see the pickup in acquisition and merger announcements in the back half of last year. But can you talk about how momentum has continued into 2021? And do you think 2021 has the potential to be a record M&A year for Focus, so more than 25 transactions?

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

Yes. Craig, as we indicated in our remarks, our pipeline is excellent. We -- quite frankly, in many ways, we are almost busier than ever. Last year, we did 25 deals. By the way, the prior year was our record year that was 34 deals, and then we did 25 deals in the year before. So we see a very good mix of holding company transactions. These are usually billion plus transactions.

We see quite a number of merger opportunities for partner firms, including relatively large mergers. Last year, we did the $1 billion-plus merger transactions, which is more unusual. Quite frankly, we are very excited about international. In fact, on my call today, I'm joined by my co-Founder, Rajini. Rajini, do you want to spend a second on international and on Connectus deals?

Rajini Sundar Kodialam - *Focus Financial Partners Inc. - Co-Founder, COO & Director*

Sure. Thank you, Rudy. Craig, we are very bullish on our pipeline across and definitely international and Connectus. My day starts these days with the United Kingdom and goes through North America and sunsets with Australia. Our value proposition, the Focus value proposition and the Connectus value proposition is resonating globally. And we believe the combination of the unique resources that we bring, entrepreneurial flexibility, true value-added support and permanent capital makes us a rather winning combination for the right firms across these geographies.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - MD*

Great. I did have one real simple follow-up. I think the last time you gave us AUM, it was roughly $200 billion. You've probably grown a lot since then, just given the markets and all the acquisitions announced. Do you have where AUM was either at December 31 or where it is today, roughly?

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

Yes, absolutely. So as you know, we don't see AUM is a terrific number for us. It's really a business benchmark. Having said that, actually, I'm glad you're asking because this is the first time where our CFO, Jim Shanahan, lets me talk about $250 billion in client assets or above. So we are -- obviously, we have grown significantly. But as we always said consistently since the time of our IPO, it's an interesting number to know, but it's not really a core, core business driver in the way we are operating the business.

Operator

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

Michael Roger Carrier - *BofA Securities, Research Division - Director*

In the past, you guys had a target audience for possible M&A. But just wanted to get your take on how that opportunity expands with the launch of Excelerate with Connectus in Connectus? And how that expands, not only like the opportunity, but also the potential revenue and margin opportunity for the firm over time?

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

Yes. So as you know, we have always had a really client-centric view to our M&A activities, meaning, it really starts with what are the services that high net worth and ultra-high net worth families need. And then we are basically looking whether these RIAs with these high-end multifamily offices. We recently targeted more -- we had our first OCIO join us. So it always started with what are the services that client needs and how can we surround this client with these capabilities.

And yes, you're correct, both Connectus and now the Excelerate announcement from yesterday broadens our M&A footprint. In so many ways, Connectus fills in the gap between direct holding company deals, which, of course, we have done since day 1, merger transactions, which is always the largest number of deals that we did, last year, it was 18. Where basically, a firm keeps its identity and brand, but at the same time, it leverages this very powerful infrastructure that we have built that ultimately gives them efficiency and growth opportunities that quite frankly, we believe, are quite unique in this industry.

James Shanahan - *Focus Financial Partners Inc. - CFO*

Yes. And just from a margin perspective, obviously, we reported 23.9%. Our guidance for Q1 is 24.5%. The Connectus activity was at the end of the year. We did 3 merger opportunities there, 1 in the U.S., and we just announced 1 in the U.K. So over time, we'll revisit our long-term EBITDA guidance and how Connectus contributes to that.

Michael Roger Carrier - *BofA Securities, Research Division - Director*

Okay. Great. And then just as a follow-up, some of the new services and best practices that you guys have been adding on the platform for the firms to use. Like, any sense on how that has, like, improved productivity, organic growth at the firms?

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

Yes. Of course, most of these we have launched quite recently. As you know, we have 2 types of programs. We have Focus Business Solutions. This is where we use and really have for quite a while, our scale, our purchasing power, our expertise to ultimately help our firms simply grow faster and improve the margins. And quite frankly, when you're looking at the growth numbers that we publish about firm growth partner for individual -- partner firm growth, of course, the very important contributor are these Focus Business Solutions.

For Client Solutions, we talked about cash and credit. Last year, we have placed roughly about -- supported $1 billion in either cash or lending solutions on behalf of partners and services beyond that are still in the works. Ultimately help provide, we say, private banking capabilities, the capabilities of a high-end private banker without any of the package to our partner firms. And yes, we believe over time that this will be very substantial enablers of our partner firms, and of course, ultimately, this will translate into economics.

We also recently announced our Orion joint venture. I'm sure you've seen it. Yes, it's still in the beta stage, but this is where we basically make our cash credit capabilities available to -- over time, ultimately all Orion clients who want to opt into these programs. Orion has 2,000 advisers, is, of course, one of the leading technology providers in this industry and somebody that we have group that we have worked with for many, many years. So yes, not in '21, but over time, we believe this is also going to be a meaningful contributor.

Most importantly, you've seen our guidance. We expect to go to double-digit organic growth numbers in '21, and as you know, historically, our organic growth was even higher than that. So it's really all of these programs together that ultimately we believe will significantly boost our organic growth that you have seen in the first quarter and for the rest of the year.

Operator

Our next question comes from Gerry O'Hara with Jefferies.

Gerald Edward O'Hara - *Jefferies LLC, Research Division - Equity Analyst*

Maybe a 2-part question just around revenue. And if you could maybe give a little color as to what some of the drivers are that led to the, I guess, higher-than-anticipated family office revenue rebound in the quarter. And then also maybe more broadly, how we should think about what appears to be year-end incentive fees, but if it's more broadly spread out throughout the year. Any context or color there would be helpful.

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

Yes. I'll let Jim go through some of the numbers. But what we have seen is, of course, as you know, the business overall did just extremely well last year. But we did have and we publicly disclosed, we had some drag here, about $12.5 million per quarter that came from the life entertainment business. What basically happened this year, there was a morphing of this business, meaning still, there are no really life events, but people are on YouTube, people are on different channels, people get back into the business that ultimately leads to an acceleration in this segment. We are not quite where we need to be or have been, I should say. But we, quite frankly, see this re-acceleration that we have seen partially here in the first quarter.

Jim, you want to go through some of this?

James Shanahan - *Focus Financial Partners Inc. - CFO*

Yes. Yes. So as Rudy has mentioned, when we were sitting here in November, in a COVID environment, we're looking at the activities at these type of clients. Clients are intelligent in the entertainment industry. They find new ways of generating revenue and activities, Netflix and Prime and things like that, as Rudy was mentioning. And it probably came in about $5 million higher than we expected based on these activities at the end of the year in November and December.

And we really like what we see going into '21 that these activities will continue to improve. Obviously, live events still aren't happening, but they're learning ways to do in other activities. And as you recall, we're essentially the outsourced CFO for all these clients, dealing with their taxes, their contract reviews, their insurance needs, all those type of things. So as those activities increase with the clients, certainly, our revenues with those activities increase as well.

And then also, there were some incentive fees. Incentive fees are not a large part of our business at all. $19 million in Q4, we have, obviously, in annual revenue base over $1.3 billion. And these kind of came in, in December, when you measure them, they generally don't come in through the year. So it's about $19 million, I'd say, plus or minus $15 million of it was probably incentive fee related that was in Q4. So that drove the outperformance against the top end of our guidance for Q4.

Operator

Our next question comes from Alex Blostein with Goldman Sachs.

Alexander Blostein - *Goldman Sachs Group, Inc., Research Division - Lead Capital Markets Analyst*

I would love to expand on Connectus a little bit more. I know, Rudy, you provided sort of higher-level comments around how that addresses your guys' addressable market. But can you help us understand, I guess, a couple of things around specific, sort of like what's the EBITDA contribution of Connectus today? What is their EBITDA margin today to kind of help us think through growth and scaling of that platform?

And then slightly bigger picture but do you think that activity at Connectus over time could spill into your other partner firms, meaning that they could start to pursue more sort of standardization and kind of learning the lessons from Connectus and the benefits that maybe some of those RIA platforms are getting by being more standardized across kind of back-office and the middle office to kind of expand for the rest of the firm?

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

Yes. Absolutely, Alex. So, obviously, we just launched it. So it's too early to talk about specific numbers, although you have seen, we have already announced quite a number of initial transactions. What's important to still highlight is we believe this is probably the first time where a program has been launched on a global scale. And that is very unique, and we ultimately believe, ultimately, a very powerful proposition. But rather than hearing from me, let's talk to the real brain behind Connectus. Rajini, do you want to handle some of Alex's questions?

Rajini Sundar Kodialam - *Focus Financial Partners Inc. - Co-Founder, COO & Director*

Yes. Thanks, Rudy. Alex, of course, we are entrepreneurs, and we always look to add shareholder value. But like Rudy said, Connectus is just starting. We are very excited about the Excelerate program that we launched yesterday. And Connectus as a global firm, Excelerate is a global program that brings together every element that is needed to fulfill the promise of Connectus, which is growth, adviser efficiency and expanding the client value proposition.

Nothing in Excelerate has a build and they will come. It is all being constructed based on multiple conversations with our partner firms and the needs they have expressed for their clients. Unique inter-leverage between Focus and Connectus comes from the fact that what we have built in Excelerate stands on the shoulders of years of institutional expertise and the scale of the 71 Focus partner firms and the vendor relationships that we have developed. This is what enables us to bring together this ecosystem.

What is unique about it is not just the fact that we have put these vendors together to provide technology, content and services, we have interwoven Focus proprietary solutions into this, like clarity, like our FCS solutions. And on top of that, we are bringing intelligent smart integration. That is what makes this unique for us. Will there be global customization by country? Absolutely. Some of these vendors will be common across, some of them will not. There has to be global customization.

Every Connectus firm will use Excelerate, but Excelerate is available by choice to every Focus partner firm. So over time, do we see the inter-leverage? Do we see the benefit across the Focus family? Absolutely.

Alexander Blostein - *Goldman Sachs Group, Inc., Research Division - Lead Capital Markets Analyst*

Great. Very interesting. Another follow-up, maybe -- I'm not sure if you guys will be able to answer it, but I'll try anyway. So $1 billion of dry powder that you guys talk to. Obviously, you highlighted very robust pipeline multiple times on this call. Any way to help us frame how quickly you ultimately expect to deploy that $1 billion?

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

Well, I knew you're going to ask it, Alex. So -- and obviously, it's a very good question. But we never thought about it this way. It's not that we got this $1 billion sitting in our checking account, and it's burning a hole into our pockets. This is capital that we can draw on if and when we need.

And what has made this model so successful is ultimately we've been very disciplined. In fact, Alex, when you look at the multiples we paid in 2020 versus 2019 versus 2018, they are basically constant. In fact, (inaudible) touch down. But again, so basically constant, which ultimately means is because our cost of debt, the weighted average cost of capital is down based on the interest rates. Quite frankly, our returns continue to be very high. You'll probably remember 25% returns in average returns, over 50% of our deals create more than 30% returns.

So it's not about the speed of deployment, it's about the quality of deployment. And yes, we are very confident that we will be able to deploy a good part of this in a relatively short time frame. But there's absolutely no rush. What I always tell the team is the only thing that's worse to not doing a deal is doing a bad deal. And this discipline has really helped us build this business over the years.

Operator

Our next question comes from Chris Shutler with William Blair.

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

A few questions on Connectus. So first, should we think about the multiples that you're paying in Connectus as being very close to what you would pay in traditional mergers?

And then in your traditional model, I think the employment agreement with the partners typically means they're locked in for a handful of years. So how does that differ with Connectus?

And then lastly, could Connectus be -- sounds like it's a healthy part of your pipeline, but could it be 25%, 30% of the EBITDA that you had this year?

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

Yes Chris, I'm so glad we have Rajini on the phone here because she [constantly looks for these] questions. But clearly, the -- it's first and foremost -- as I said in the prior question, it's first and foremost, filling in a gap that we had in our M&A model. Ultimately, quite frankly, it was something that Rajini and her team really developed from some of the learnings in the U.S. and experience in the U.S. but for the Australian market.

We ultimately believe that the effective multiple because these are highly synergistic transactions because they share infrastructure, ultimately, the effective multiples will be just as attractive or, quite frankly, more -- even more attractive than what we have today. But Rajini, you want to add something?

Rajini Sundar Kodialam - *Focus Financial Partners Inc. - Co-Founder, COO & Director*

Absolutely. As Rudy said, that is the premise of Connectus. We have a robust pipeline. The only thing that I would like to add to what Rudy said is Connectus certainly expands the market for us because it caters to the need of an adviser base that is acting for something different than what our direct model and our mergers offer. It is a hybrid. And yes, the shared services platform is definitely going to help, both with revenue and with adviser efficiencies, which will eventually be accretive.

But what we do want to emphasize is Connectus does not change the quality and caliber of the firms or the advisers that we are looking for, the disciplined approach that we have to affiliating ourselves with client-centric fiduciary advisers is consistent, irrespective of which model Focus is applying.

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

Yes. We have the same contractual protections as we have in our traditional transaction. So really no change from this perspective.

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

Okay. And then just one for Jim, just the I think you gave the earn-out payments expected for the first quarter. Can you give us a rough number for 2021?

James Shanahan - *Focus Financial Partners Inc. - CFO*

Yes. We don't provide guidance at this point on the full year, Chris. It's just -- it's hard to estimate. We'll be publishing the 10-K shortly. So the aggregate earn-out under the GAAP methodology in Monte Carlo for the business acquisitions is about $170 million that gets paid out over several years, and we've given guidance of $10 million for Q1. It's just -- it's too hard to estimate with precision the annual basis what these earn-outs may be.

Operator

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

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

So with Connectus, how do you make sure that incentives of the selling firms are going to be aligned with yours over the long term, given that you are going to be owning 100% of the economics? I think historically with a partner for a model, you own 40% to 60%, you have earnings preference and so clearly, economically, the selling partner is aligned. How do you make sure that the selling partners with Connectus are going to be incentivized to continue to grow the franchise?

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

Yes. Absolutely. And as I said, we have Rajini here. But first, more than any contractual or other provisions. It's simply be really careful who you let into the partnership here. And we continue, as Rajini just said, to be very selective. We make sure that the -- ultimately, the interest of these partners are aligned with us. And quite frankly, it's ultimately through a formulaic sharing in the economics of the business, plus some incentives on top of it.

So again, it's a very close alignment, slightly different to what we have with our -- in our core business. But ultimately, because we control the platform here, because we ultimately, we are the platform for these partner firms. We, of course, have much more influence over this part of the business. And so we are very, very comfortable that based on all the expertise that we have built and the formulaic approach here on the economics that ultimately these partners are just as aligned as they are with our core transactions.

Rajini, anything you want to add?

Rajini Sundar Kodialam - *Focus Financial Partners Inc. - Co-Founder, COO & Director*

Sure. The economic alignment and ongoing incentives are very inherently a part of Connectus. And as part of Connectus with every firm, just like every Focus partner firm, we make sure that it's not just Gen 1 that is aligned, but Gen 2 and Gen 3 that is aligned. That is a core aspect of our model, and that is completely consistent across Focus, definitely for Connectus.

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

Great. And then a question about the competitive landscape in terms of acquisitions. Obviously, there's a lot of money chasing U.S. RIAs right now, a lot of private equity-backed consolidators out there. Is it less competitive when you're bidding for advisory firms outside of the U.S.?

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

Yes. So first, fourth quarter last year, we did 15 transactions, 5 new partners, 10 mergers. Last year in total, 25 transactions. So clearly, our unique value proposition just resonates and will continue to resonate. We have to be just very, very disciplined. As I said at the beginning, quite frankly, last year, we called a little bit internally, the year of the drunken sailors. Yes, we have seen very unusual transactions last year and some firms are buying it double, triple the type of multiples stay would be worth, meaning that the acquirer would be worth. And there's, obviously, shareholder value destroying transactions. Yes, we would never do this to our shareholders.

Our discipline speaks for itself. And because of this unique building block around ultimately the entrepreneur and the value-added programs, our unique approach to what successions and very important, the effect that we a provider of permanent capital. We're the only public company in this space, at least of any scale. And our ability to be a provider of permanent capital is very differentiated versus private equity, for example, where every transaction that happens, this thing is going to be on the block again in 3 years, 5 years or whenever. And in the second go around, the principles of these firms will have very little control over who the PEs are going to sell it to.

So in reality, we are very confident in our track record and the quality of our pipeline just speaks for itself that we will have almost unlimited opportunities here for years to come. Just one number to illustrate this. Cerulli came out with the report recently and they are basically pointing to in -- just in the U.S. an M&A opportunity in this space of $2.8 trillion. $2.8 trillion in the next 5 to 10 years. We mentioned before, Focus today is $250 billion plus. So just the sheer size, and these are just U.S. numbers, is just extremely high. We are the largest in this space. We have the longest track record, not just of transactions but of value-added. I think we are in a rock-solid position. And I'm very confident that '21 is going to be a very good year again.

Operator

Our next question comes from Kyle Voigt with KBW.

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

Maybe just on the margins, calculating incremental EBITDA margin in 2020 of over 35%, which is obviously very strong. Is there a way you could help us understand how much of this is maybe due to any change in the ownership percentage of the businesses you acquired during the year versus simply realizing scale benefits and operating leverage?

And then secondly, maybe a second part of that question is, in the growing revenue environment, can you share a bit more about how you think about the balance of wanting to pay and retain advisers versus kind of driving margin expansion for shareholders?

James Shanahan - *Focus Financial Partners Inc. - CFO*

Yes. I think -- maybe I'll just start. So Kyle, we -- into Q3, we had an earnings supplement where we announced the acquired based earnings and the estimated revenue and that was with 4 of the firms, we ended up closing 5. So the 5 firms, new partner firms in Q4 were somewhere around 36%, 37% of margin there.

Obviously, SG&A costs that you have seen as relative to revenue have not been going up. So that's a positive on the margin. And then the $19 million of the onetime in Q4 probably had about a 26 margin percent impact to adjusted EBITDA margin. So that's a little color for you on the margins.

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

And Kyle, as we were saying from a long-term perspective, we are not changing our 2025 guidance at this point. But clearly what we have learned in 2020 and what our partners have learned is a more efficient approach towards running the business.

Jim and I aren't yet clear or not with the precision that we like which of these are temporary because it's related to corona and which of these are permanent. But yes, very much, we are going to look to throughout this year how the expense basis evolves. And yes, there is a potential that we will be revising the 24% upwards at one point, once we have better clarity into kind of the ongoing cost structure of the business.

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

And maybe just a clarification question, and Jim, sorry, if I missed this. But in terms of the 20% revenue target you provided for 2021, it sounds like you don't really need more help from markets, from the current levels to reach that. But I guess wondering if we need to see a return of that -- those live events in the second half of the year, are you assuming that those come back in order to hit that 20% target?

James Shanahan - *Focus Financial Partners Inc. - CFO*

Well, I think we hopefully are all optimistic that we all get vaccinated in the first half of this year and activities will start to increase in the back half of the year. So we're not breaking out the guidance of the 20% between the market and the nonmarket. We did give some guidance on seasonality of that type of revenue into Q1. But we're comfortable with the guidance at this point of over 20% of revenue growth for 2021.

Operator

There are no further questions at this time. I would like to turn the floor back over to Rudy for closing remarks. Rudy?

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

Yes. Thank you. So we are extremely proud of what our company accomplished in 2020 and how well our partners serve their clients and manage their businesses during these challenging times. They have shown extraordinary dedication and perseverance. I also want to thank our holding company employees who went above and beyond in so many ways, as they supported our business in a challenging environment. With the rollout of effective vaccines and stronger COVID treatments, we hope that the world will begin returning to normal later this year.

We are looking with great optimism towards 2021 and beyond. Our ability to deliver substantial growth and margin expansion, while deleveraging during the crisis, combined with our tremendous capital flexibility and unique scale position us to take advantage of our industry-leading position to expand our model in the U.S. and in selected international markets.

In closing, I wish you all good health, and thank you for your interest in our business. Bye-bye.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation. Have a wonderful day.
