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PRESENTATION

Operator

Good morning. I would like to welcome everyone to the Focus Financial Partners 2019 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 Communications. (Operator Instructions)

I would now like to turn the conference over to Mr. McGranahan. Please go ahead, sir.

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' 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 these results to differ materially from these statements. And finally, Focus assumes no duty and does not undertake to update any such forward-looking statements.

With that, I will turn it over to our Founder and CEO, Rudy Adolf. Rudy?

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

Thanks, Rusty, and good morning, everyone, and welcome to our earnings call. As always, we appreciate your interest in Focus.

I'm extremely pleased with our 2019 fourth quarter and full year results. Our Q4 revenues of $340.2 million and adjusted net income per share of $0.75 increased year-over-year by 37.5% and 47.1% on organic revenue growth of 25.2%. For the full year, our revenues were over $1.2 billion, crossing the $1 billion mark for the first time, and adjusted net income per share was $2.38, up 33.8% and 36.8% on organic revenue growth of 15.1%.

These results demonstrate the strong growth trajectory of our business. In the 6 quarters since our IPO, our revenues have grown by nearly 50% and our number of partner firms increased by 14%. These results exceeded our initial expectations and reinforced our industry leadership, attractive business model and strong competitive positioning.

At our Investor Day last November, we laid out our strategic vision for the growth, profitability and scale we believe Focus can deliver by 2025. Revenues of approximately $3.5 billion, adjusted EBITDA of $840 million and about 100 partner firms.

Our 2019 results demonstrate why we are confident in our ability to achieve this vision. We are operating at a leading scale in this industry, with over $200 billion in client assets, 64 partner firms, over $1.2 billion in revenues and a long track record of value-add and successful acquisitions. We have deep insight and knowledge gained with the longevity of our partner relationships combined with compelling economics. These attributes are highly differentiated and, when taken together, we believe they would be difficult to replicate in the fiduciary advice space.

As we highlighted at our Investor Day, our portfolio of 49 firms that have been with us for 2 years or more, at the time, delivered a weighted average levered IRR in excess of 25%, demonstrating our investing acumen and the quality of our partner group. Over half of our partners are generating an IRR of more than 30%, and more than 85% are generating an IRR of over 20%. We consistently pick the right partners, those that are best positioned to accelerate their growth through access to our resources.

Last year, our partners made great progress in strengthening and growing their businesses. Key areas of focus were developing next-generation talent, operational and technology enhancements and business development initiatives. And we will continue to be actively engaged in these areas for the coming year.

For example, we are helping develop new value propositions, including sales training and rebranding initiatives. We're assisting with strategic planning, career pathing and incentive alignment. And we are working on reporting technology enhancements, including vendor assessments and implementation. Our partners also increasingly took advantage of our scale to extend their client services. We are equipping them with private banking resources at competitive pricing without taking on any balance sheet exposure or infrastructure investment. Cash credit is a terrific example of this.

We have an active dialogue with more than 20 of our partners and, through December 31, we had over $100 million in closed and funded loans, along with a similar level of participation in our deposit program. Both are catalysts for organic growth.

In 2019, we closed 34 transactions, capping a strong year for M&A. More than 80% of our deals were mergers by our partner firms, as they capitalized on industry consolidation dynamics. Of the 16 partners who completed transactions last year, half completed their first merger. The remaining 6 acquisitions related to new partners, which expanded our presence in strategically important markets in the U.S., Australia and Canada as well as in the family office space.

Our long-term strategy combined with our 4 growth levers: insight, scale, M&A and capital, are the drivers of our 3 priorities for 2020: First, to deliver 20%-plus annual revenue and ANI per share growth through a combination of growth by our partner group, supporting our partners through mergers and adding excellent new partners in the U.S. and internationally; second, to leverage our insights and scale to enhance the business and client solutions we can offer our partners; and third, to deploy capital to the highest return opportunities, while remaining within our target leverage range of 3.5x to 4.5x.

The market opportunity remains substantial. According to a recent Envestnet survey, RIAs [managed] 24% of wealth management assets in 2018 and, by 2023, they're expected to manage 30%. Against this backdrop, we're extremely well positioned to grow our partnership.

As we highlighted at our Investor Day, our partners are larger, more profitable and grow faster than industry benchmarks and benefit substantially from the value-add intellectual capital we provide. These attributes make our partners highly attractive to the best advisers and their clients.

We are focused on delivering business and client solutions that will further enhance our partners' competitive positioning. On the business side, we are leveraging our scale in vendor negotiations to optimize costs and enhance service levels. For example, because most of our partners buy research from common providers, we are evaluating alternatives to reduce the aggregate costs they pay. On the client side, we're evaluating solutions that will drive best-in-class client service and experiences. While still early days, insurance is an example and another is asset management optimization. For example, one of our partners has a strong capability in alternative investments, and certain of our other partners are starting to utilize this capability on behalf of their clients. We anticipate that we'll have more information on these and other initiatives to share with you in the coming quarters.

We began 2020 with a solid M&A pipeline, and we are anticipating another strong year. We will remain highly selective in the transactions we consider, disciplined in the multiples we pay and rigorous in ensuring that the capital we invest generates a minimum levered IRR of 20%. Mergers will continue to add significant value to our partners and shareholders. Increasing the growth rates of our partners through mergers was a major innovation that Focus brought to the RIA industry, making us the primary beneficiary and driver of industry consolidation. From inception, the Focus model was designed to be a growth accelerator for high-performing platforms, our partners.

The 2 mergers we have closed and the one we have announced year-to-date will accelerate partner growth and profitability by adding additional clients, advisers and referrals. They will also enhance our partners' client service and the benefits they derive from utilizing our value-add capabilities. We're also further expanding our international presence, which is important to our diversification strategy. We recently announced the acquisition of 2 new partners, Nexus Investment Management in Toronto and MEDIQ in Melbourne, which when MEDIQ closes will bring our international partners to 7 or nearly 11% of our partner group.

Nexus is one of the most highly regarded names in the Canadian independent wealth management market with over $1.5 billion in client assets. Nexus provides investment and wealth management services across Canada to ultra-high and high net worth clients as well as select endowments and foundations. MEDIQ specializes in providing integrated wealth management services to medical professionals and their families, including investment management, insurance, tax and other services. MEDIQ's unique positioning as the trusted adviser to this client base provides access to lucrative and growing market with opportunities to expand its national footprint.

Now a few words on leverage. We ended the year with a net leverage ratio of 4x, a meaningful sequential decline due to the increase in our Q4 adjusted EBITDA. This level provides a great starting point for 2020. We will continue to deploy capital to the highest return opportunities, while remaining within our target 3.5 to 4.5 range. We believe this is the appropriate range to support our 20% top and bottom line growth targets. We continue to closely monitor our leverage, while balancing this priority against executing on attractive M&A opportunities.

To close, we are very pleased with our Q4 results and strong finish to 2019. As we turn to 2020, we are confident in the forward potential of our business as we advance towards our 2025 objectives. We believe that our unique model of entrepreneurship combined with access to value-add services and permanent capital will continue to make us the partner of choice, enabling us to attract high-performing partners at attractive multiples.

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

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

Good morning, everyone. To reinforce what Rudy said, 2019 was an excellent year for our business, capped by a strong fourth quarter for both growth and profitability.

Our Q4 revenues were $340.2 million, 37.5% higher year-over-year. Our adjusted net income was $56 million, up 52.3%. And our adjusted net income per share was $0.75, up 47.1% from the prior year quarter.

Our full year results were well above our 20% annual growth targets. Full year revenues were over $1.2 billion, 33.8% higher than the prior year. Adjusted net income was $178.6 million, up 42.5% year-over-year. And ANI per share was $2.38, up 36.8%.

These results reflected not only strong performance by our partner portfolio, but also the benefits of access to our scale, resources and intellectual capital. Our partner firms are performing well and will continue to be excellent platforms for future growth.

Now turning to the details of our P&L. The strong year-over-year growth in our Q4 revenues was driven by 2 factors. Approximately $62.3 million or 67% of the increase resulted from exceptionally strong organic growth by our partner firms, inclusive of mergers, demonstrating the revenue-generating power of the portfolio at scale. Our partners took advantage of our resources and capital to expand their businesses by adding new clients and advisers and by enhancing their service offerings. Loring Ward was also part of the increase, contributed an incremental $8.7 million in Q4 '19 compared to Q4 '18.

The remaining $30.4 million or 33% of the increase resulted from 2019 partner acquisitions. We completed several landmark transactions last year, including Williams Jones, Escala and Altman, Greenfield & Selvaggi, which drove substantial growth in our revenues and profitability. Our Q4 organic revenue growth rate was 25.2%, which reflected strong organic growth by our same-store partners over the prior year period.

For the full year, the rate was 15.1%, and in Q1, we anticipate that it will be around 19% based on our advanced billing visibility. 70.5% of our Q4 revenues was correlated to the financial markets, of which 70.2% was generated from advance billings. The remaining 29.5% was from non-correlated sources, primarily from our partners that provide family office type services. In Q4, we reached $100 million in quarterly non-correlated revenues for the first time.

Before turning to expenses, I want to highlight a few points related to modeling our Q1 revenues. We didn't close on any new partners in the fourth quarter, which is typically a seasonally slower period for M&A activity. However, as Rudy mentioned, we announced that Nexus Investment Management in Canada has joined the Focus partnership. The Nexus transaction closed on February 1 and will add approximately $3.2 million in annual acquired base earnings or $800,000 per quarter. Approximately $500,000 will be reflected in our Q1 results due to the mid-quarter close.

As I just mentioned, our nonmarket correlated revenues, which are primarily related to family office type services, exceeded $100 million in Q4, an increase of 72% year-over-year. These services are typically provided to high net worth clients in the entertainment industry, and accordingly, the specific activities and projects of those clients can lead to quarterly revenue fluctuations. There's approximately $20 million in revenue seasonality to be aware of in Q1 related to these services.

First, our Q4 revenues were favorably impacted by approximately $10 million of incremental revenues that were primarily associated with these family office type services. This amount contributed to our outperformance relative to our original expectations for our Q4 organic growth rate, accounting for roughly 4 percentage points of the difference. While we don't expect this $10 million to be reflected in our Q1 revenues, we do anticipate that the majority will recur in Q4 of this year.

Second, Q1 is typically the seasonally slowest quarter for these services based on the activities of the clients. As a result of the rapid growth in our non-correlated revenues, we estimate that the seasonal impact will be greater in Q1. We anticipate that our Q1 revenues will be lower by an incremental $10 million relative to Q4, although we expect this amount to recur in Q2 of this year.

Now turning to Q4 management fees and adjusted EBITDA. Management fees were $87.3 million, increasing 37.8% from the prior year period. And for the full year, they were $304.7 million, increasing 30.9%. Management fees are one of our largest expenses, but are tied to the performance of our partner firms. Management fees were 25.7% of revenues in Q4, relatively consistent with Q3.

Our adjusted EBITDA was $83 million, 53.1% higher than the prior year period. And our full year adjusted EBITDA was $269.8 million, up 32.7%. Our adjusted EBITDA margin was 24.4%, and for the full year, it was 22.1%. The margin increase from Q3 to Q4 primarily resulted from the incremental Q4 revenues I mentioned earlier as well as disciplined expense management. Our expenses were well-managed by our partners and at the holding company, particularly compensation expenses, which remained flat from Q3 to Q4. In Q1, we estimate that our adjusted EBITDA margin will be approximately 23%, which includes the impact of the $20 million of revenue items I mentioned earlier. Our noncash equity compensation expense was approximately 1.5% of revenues for the full year, which remains a good proxy for this year.

In December, in connection with our annual incentive compensation, we granted approximately 2 million incentive units with a hurdle rate of $27.90 with a 4-year time vesting. Equity-based compensation remains a substantial portion of incentive compensation for our management team, which reinforces a strong alignment with our shareholders.

In Q4, we recorded a onetime impairment charge of $11.7 million related to a minority equity method investment. There were no equity earnings associated with this investment in Q4 and only $500,000 for the full year, and thus, not a meaningful contributor to our full year consolidated earnings.

Our LTM cash flow available for capital allocation as of December 31 was $163.5 million, 55.2% higher year-over-year. This substantial increase was driven by the growth in our adjusted EBITDA. In 2019, we used our cash flow for capital allocation, primarily to fund our M&A activity and to satisfy earnout obligations, and we expect to use it in a similar fashion this year. In Q4, we paid earnouts of $3 million as well as the final $12.5 million purchase price installment related to the Loring Ward transaction.

To help investors better understand our cash flow available for capital allocation, we have expanded our disclosures in our earnings supplement this quarter in 3 areas: first, we have added additional information on our tax receivable agreements; second, we have added a new disclosure on our tax intangibles to help investors better understand the tax efficiency of our model; and third, we have expanded our disclosure on the excess cash flow requirement under our credit facility. Enhancing our disclosures remains a key priority so that investors can more easily understand our business and growth prospects.

Now turning to our balance sheet. We ended the quarter with approximately $1.3 billion in debt outstanding under our credit facility and a net leverage ratio of 4x. As Rudy mentioned, the reduction in our net leverage ratio is primarily a function of the increase in our adjusted EBITDA from Q3 to Q4. While we anticipate continued strong M&A activity this year, we will operate within our target range of 3.5 to 4.5x. For Q1, we estimate that our net leverage ratio will remain at approximately 4x. We will continue to closely monitor our leverage, while balancing this priority against allocating our capital to transactions that meet our growth and return criteria.

In January, we successfully repriced our term loan, reducing the interest rate from LIBOR plus 250 to LIBOR plus 200. Assuming LIBOR stays constant, we estimate that this will reduce our interest expense in excess of $5 million annually. Although the transaction was oversubscribed, reinforcing the institutional lending community's confidence in our business model and our strong access to the debt markets, we did not raise any additional debt capital. As of December 31, we had in excess of $500 million of capacity available under our revolver to fund our growth.

To close, 2019 was an outstanding year. We grew our top and bottom line at levels that are well above typical growth rates in the wealth management industry and in financial services generally, and we delivered record ANI and ANI per share growth. We further diversified our revenue stream and substantially increased our adjusted EBITDA and cash flow available for capital allocation.

Our partners delivered strong growth and enhanced client services, reflecting the benefits of access to our scale and resources. We completed a large number of M&A transactions, further capitalizing on industry consolidation. We further strengthened our balance sheet and communicated our expectation with respect to our net leverage ratio.

Lastly, we further enhanced our disclosures to help investors better understand our business and completed a very successful first Investor Day. I am excited about the year that lies ahead. We have great momentum, and I believe that we are well positioned to deliver against our 20% annual top and bottom line growth targets on average and over time. I am confident that the scale benefits of our business will continue to increase our operating leverage over time. When combined with the benefits that our partners drive from a highly differentiated business model, these elements will create substantial value to our partners and shareholders alike.

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 the line of Owen Lau with Oppenheimer.

Kwun Sum Lau - *Oppenheimer & Co. Inc., Research Division - Associate*

So your adjusted EBITDA margin was 24.4% in the fourth quarter, and you guided to 23% in the first quarter. And I understand that there is seasonality in revenue. But it appears to me that your full year margin can get to somewhere very close to your long-term 24% target this year or next year. Do you think your long-term guidance is kind of conservative, given that you'll continue to scale up? How should we think about your margin expansion trajectory going forward?

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

Hi, and thanks for your question. Of course, yes, the 24.4% for this quarter was excellent and simply a reflection of the terrific momentum that we have in our business. We -- our guidance, the staying power of guidance and one important reason for that is, as you know, on the one hand we are seeing this operating leverage for the core business as we scale, but ultimately a key determinant of this EBITDA margin, ultimately, is the percent acquired and for new firms when they join us. And we believe the guidance that we gave at Investor Day is appropriate, considering the percent acquired.

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

Right. And for the full year 2019, Owen, we're at 22.1%. So sort of reflecting the business on a full year and 23% for Q1 got sort of growing the business towards the long-term outlook. So we'll continue to provide guidance on a quarterly basis for the EBITDA margin as well.

Kwun Sum Lau - *Oppenheimer & Co. Inc., Research Division - Associate*

Got it. And then my follow-up is regarding the M&A environment. Do you have any risk to lose from the Morgan Stanley and E*TRADE deal in the RIA space? And also, how should investors think about your pace of international expansion after your Nexus and MEDIQ deals?

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

Sure. Well, I'm busy enough talking about Focus. I'm not sure I want to comment much about other businesses. The one thought, however, did cross my mind when I saw the announcement today, it's simply a reflection that the traditional model is broken and does not -- cannot compete with the winning model in this industry, which is the RIA fiduciary model, which of course is gaining market share to the tunes of hundreds of billions of dollars a year, which means when you are operating on the losing side of the equation, you need to do consolidation. And what we are seeing with the E*TRADE deal, of course, what we're seeing with Schwab and Ameritrade, and it's ultimately traditional consolidation moves that ultimately are defensive in nature, and of course, are fundamentally not about higher client value, but really about cost savings and consolidation.

As it relates to international, yes, we have always been very clear that, of course, our starting point is a U.S. business. But we see great opportunities in Australia or in Canada and over time in some additional markets. I just came back from our partner firm Nexus, up in Canada and by the way, there will be a video from the trip on our website. And I have to say, it is so exciting to see how our core business model resonates way beyond the U.S., and quite frankly, how we were the right solution at the right time for one of the leading firms in the Canadian markets. Given the scale, the unique scale and breadth that we have in this industry we, of course, can deploy capital where we see the best opportunities. And yes, we are very excited about what's happening in the -- in a number of these international markets.

Operator

Our next question comes from the line of Kyle Voigt with KBW.

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

My first question here is just on the $10 million of revenue that you didn't originally expect to realize in the fourth quarter. I know you said it was family office type revenues. But can you just get a bit more granular than that, like what types of services exactly and kind of why was there some seasonality in the fourth quarter? And also, were these revenues very high-margin revenues, and that's kind of partially what drove the stronger EBITDA margin in the quarter?

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

Yes. We made a strategic move that we explained in a number of these calls to move the business more towards the ultra-high net worth. And quite frankly, what we are seeing is that these investments, whether it's (inaudible) a number of other firms, you are simply paying off -- end up paying off in an excellent way. And we had, of course -- we have, as you know, excellent visibility in terms of the -- in advance billing. The arrears side, of course, by definition has -- gives us less visibility. And some of these services are simply tied to the success of the underlying clients. And we, quite frankly, are just very, very pleased with what we have seen. And it's important to note why these are not quarterly recurring revenues, so they are not going to -- you won't see them in Q1 or Q2. We fundamentally believe that this is a recurring phenomenon that is going to benefit us throughout the years.

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

Yes. And then your question from a margin perspective, Kyle, you're correct. It was about $10 million of revenue, and there wasn't much incremental cost associated with this revenue, except for the management fee, which was about $5 million. So this was about 50% margin, just these specific economics.

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

Yes, very attractive.

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

Got it. And then one other question I had was just on the 19% organic growth guidance for the first quarter of 2020. Just wondering if that includes the entirety of the 3 sub-acquisitions that you expect to close in the quarter.

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

Yes. Of course, you know how we are defining our organic growth. We will have some help in the first quarter. We didn't have much help in the fourth quarter. But in the first quarter, we are going to have some help from the market, some help from the transactions that we announced. And, quite frankly, judging from our in advance billing, again, that's where we get this great visibility into the next quarter. Quite frankly, Jim and I are very excited with what we see.

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

Yes. So it is reflective of the mergers and reflective of the outlook that we have in the supplement on the $20 million.

Operator

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

Dean M Stephan - *BofA Merrill Lynch, Research Division - Analyst*

This is Dean Stephan on the line for Mike. Just a quick question around the competitive environment. So given the competitive environment, kind of more players entering the space, are you guys seeing any changes in terms of deal pricing or competition for deals? And just in regards to that, how do you see these competitive forces kind of playing out moving forward?

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

Yes. So Dean, clearly, the -- our business model is very differentiated. Much of the money that's coming into the market is private equity-driven, and private equity money is low value-added, is temporary. And so it's already starting in a disadvantaged position. Our model is about entrepreneurship, about a long track record of tangible value-added that we demonstrated with so many of our partner firms and ongoing access to permanent capital. So what it, of course, means is when a private equity firms get involved with sponsored firms buying in RIA, it's temporary money. So you have to explain to your clients that you just took ownership percentage from a private equity group. And by the way, 3, 4, 5 years from now, you will be on the block again. And then the transaction is fully controlled by the private equity. With most clients in the ultra-high net worth, this is a formula that does not resonate, and quite frankly, is not very attractive. In a more of the mass affluent market, quite frankly, it's less of an issue.

So we fully are committed to our annual targets. We have a good pipeline. As I said before, we have this tremendous unique opportunity to deploy capital across many different markets where we think we get the best returns. But from an overall perspective, we like where we are on the M&A side.

Operator

Our next question comes from the line of Alex Blostein with Goldman Sachs.

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

A couple of questions. So first, Rudy, you talked about helping your partner firms really leverage Focus' infrastructure and kind of the know-how in the marketplace to build up their scale. Can you talk a little bit about how these benefits translate to Focus' margins over time? So what I'm really looking for, I guess, is you look the '19 EBITDA margin of 22% and you kind of continue to add to scale to your partner firms. Where could these margins go, assuming kind of steady-state book of business? So -- which I know is not quite your business. But excluding the future deals, what do these scale benefits add to EBITDA margin over time?

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

Yes, sure. So our whole business system, from the start was geared around value added. And many of our partner firms have just seen tremendous growth. I just visited recently The Colony Group up in Boston. They joined us a little over 10 years ago. This was a $1.1 billion firm. This is now a $12 billion firm that has a very nice blend of first class client retention, new client dynamics, great investors, but they're also very acquisitive. So in many ways, it's an excellent example of how a partner firm evolves from being a very good business to being one of the best businesses in this industry.

The way it translates into financials is, of course, the incremental revenues that are being generated, ultimately, are higher margin than the base revenues. And again, we had an extreme case in the $10 million this year, where we basically get a 50% margin on this revenue. So ultimately, the efficiency and the increase in revenues and growth of our partner firms increases their economics. And then these improved economics we are sharing through the management fee with our partners, which (inaudible) they get 50%, we get 50%. So it's a highly aligned model, and it's a model that can really generate value also through margin expansion. Having said that, we are not changing our 24% guidance that we provided in the Investor Day. We think this is an excellent spot to be in. And yes, that's the target that we stay with.

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

Okay. And then I wanted to touch on the non-U. S. opportunities for you guys. Seems like you've been a little bit more active there. So can you talk a little bit about the dynamics of buying the business outside the U.S.? What kind of multiples you guys pay in there versus U.S.? Sort of what's the percentage of ownership that you acquire EBITDA margins for those kind of businesses or -- so in line with what we can see in the U.S., are there some nuances that we need to be mindful of as you push forward outside the U.S.?

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

Yes, absolutely. So what creates these opportunities and what makes us so excited about it is we're looking for discontinuities, major discontinuities that ultimately create an opportunity for a fiduciary advice model. In so many ways, Australia is Exhibit A of a market where regulators basically had pushed out with billions of dollars of fines, all the traditional players creating a wide open field for independent advisers that basically follow a fiduciary model, quite frankly, in some ways, even leapfrogging what we have in the U.S. in terms of the advice standards. We are very -- our model is very special in the U.S. It's unique, unheard of in a number of these markets, and that kind of enhances the opportunity.

Alex, the economics are quite similar to comparable deals. It's the same mid- to high multiples, single-digit multiples that we are paying. The model is identical. We usually buy about 50%. The core margin of these businesses, again, is quite comparable to what we have in the U.S. So quite frankly, a number of these businesses -- and take this in the right spirit, but the number of these businesses, you could lift up with a crane and transport over to the U.S. and they would be doing business pretty much exactly the same way. Of course, what is a little more complex for us is the regulatory environment in legal, taxes. We need to spend, of course, some more time on this. But the core business model is the same, and quite frankly, over time, our core value-added model is going to be the same as well.

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

Great. And then just the last one from me. I guess, you talked about a robust pipeline heading into 2020 for deals again. Can you help us frame how much capital you expect to deploy in 2020 either in Focus deals or partner firm deals? And I know you're probably not going to want to put a number on that, but just help us frame what could 2020 look like relative to 2019 or 2018 in terms of the actual capital deployed?

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

Yes. We don't really know the timing of transactions. And we know have a good pipeline. We know that we will, again, deploy a very substantial amount of capital. But I don't want to pin a specific number, because this is the M&A business and there -- it's always very hard to predict. But clearly, when you look at our pipeline, I like what I see.

Operator

Our question comes from the line of Chris Shutler with William Blair.

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

When we look at the partner firm deals over the last year that you've completed, can you give us a sense what was the lowest ownership stake that you took and what was the highest ownership stake?

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

Yes. It's pretty similar to what we had in the past. Let me quickly eyeball these deals. So I wouldn't say that there was any standout one way or the other. As we look at the percentages acquired, of course, key deals last year, you have Williams Jones; Escala; AGS, Altman, Greenfield & Selvaggi are very much in line with our typical percentages acquired.

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

Okay. And just a couple of follow-ups on that. So in -- I know we've talked about this in the past, but I just want to make sure I understand. The -- if I take the management fee number and if I divide that by operating income, that should be a decent proxy for the percentage of firms that you do not -- would that be correct? So the inverse of that would be close to the percentage that you own?

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

Yes. So management fees, as we say, in the fourth quarter were about 25% of the revenues, and that was a pretty consistent number. Of course, there's the holdco expenses here that goes through this mathematics. So you can't really create a 1:1 ratio. Also, what is a pretty common phenomenon, because we are buying on a run rate, of course, the preference in the first year of the transaction quite often has a little bit of relevance, but it does have some relevance. So there are a number of dynamics where you can't just calculate this percentage and you get the inverse of what we own.

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

Okay. And then the other one, maybe the simplest way to ask it is just if I look at the Q4 EBITDA margin of a little over 24%, that was almost 300 basis points better than your guidance, given that the -- it sounds like the ownership stakes haven't really changed, that the family office was similar margin. Help me understand why that outperformance would have occurred. And then the other thing, just looking at that metric I was pointing to, it did look like the inverse of the management fee divided by operating income increased pretty substantially quarter-over-quarter. So just trying to understand what -- basically, what helped the margin?

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

Yes, I think as I indicated earlier, Chris, that $10 million of incremental revenue didn't come with any associated costs other than the management fee. So just that pure place of business was a 50% margin impact. Maybe one other way to look at it is if you take revenue minus cash comp minus cash SG&A, call it, core expenses, that's about 50% of the revenue for Q4 as a proxy. Obviously, that's also inclusive of the holding company, where we have about 80 or so employees. But the holding company is a small portion based on the aggregate size of the firm at this point. So that kind of can give you a proxy of the economics.

Operator

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

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

It sounds like in the prepared remarks, you mentioned some alternative investment initiatives. It sounds like there's some additional information forthcoming here. But perhaps you can speak to the demand or other drivers that have contributed to the build-out within this alternative asset class, and importantly, how Focus is kind of positioned to deliver on this initiative.

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

Yes. So, Gerry, the -- of course, we are wealth manager, we're not an asset manager. And as such, we are allocating our clients' assets into many different asset classes. And as we have been more and more targeting the ultra-high net worth and the high net worth side of the business, quite frankly, demand for alternative -- access to alternative assets is very important. We have some of our partner firms where 40% of the total allocations are into all different types of alternatives.

As we explained at our Investor Day, we are now focusing on taking advantage of this unique scale that we have built in the industry, $200 billion, 4,000 people and so on. And this gives us the opportunity to basically create more linkages between partner firms where they can leverage each other's capabilities. And we have a handful of firms that are really good in the alternative space and you have the other firms that have a very high demand for these type of asset classes. And we are basically creating the intelligence, which, if you want, between these partner firms and after our first implementation, there will be more. And I think we will have more updates here for the investors.

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

Great. And then just perhaps a follow-up around the leverage ratio. And forgive me, I know I'm still a little new to the story, but it seems like it came in at the lower end of the updated range. Just sort of curious as to what we might expect to -- or what we should look at that would kind of be a leading indicator here of how that number might move, plus or minus or around the current -- within the current range?

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

Yes. So it was very important for us, Gerry, to give the investors a clear guidance in terms of how to think about leverage. The range is between 3.5 and 4.5. Last quarter, 4.27. Because of the dynamics, the very, very favorable dynamics that we experienced in the fourth quarter, we delevered to exactly the midpoint between the 3.5 and 4.5. And quite frankly, it's a very comfortable number for us.

We will basically oscillate around this based on where we see opportunities to deploy our capital. But this is a spot that, quite frankly, we thought we would be reaching at a later part. But just a terrific economics of Q4, and quite frankly, the terrific economics throughout 2019, basically enabled us to delever much faster and to exactly the spot where we are very comfortable.

Operator

We have reached the end of our question-and-answer session. I would like to turn the call back over to Mr. Rudy Adolf for any closing remarks.

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

Thank you, and thank you all for your interest. And in closing, I want to stress that I could not be prouder of the performance of our business and the growth and progression of our partner firms. 2019 was a great year on many dimensions, and it really reinforced the strong trajectory of our business. We are confident in our ability to expand our business, given the scale and competitive advantages that we have today. We firmly believe that our unique model will continue to make us the partner of choice and the leader in this highly attractive market.

I do want to take this moment to thank our incredibly talented partners and employees. We would not be where we are today without their hard work, their dedication and relentless thrive to the benefit of their customers and our -- and all of our shareholders. I'm excited about the momentum we have coming into 2020 and all that we will achieve throughout this year. Thank you all for your interest.

Operator

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation, and have a wonderful day.

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