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CORPORATE PARTICIPANTS

James Shanahan *Focus Financial Partners Inc. - CFO*

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

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

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

Michael Masters Young *Truist Securities, Inc., Research Division - VP and Analyst*

Michael Roger Carrier *BofA Merrill Lynch, Research Division - Director*

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

PRESENTATION

Operator

Good morning. I would like to welcome everyone to the Focus Financial Partners 2020 Third Quarter Earnings Call. Joining today's call are Rudy Adolf, Founder and CEO; Jim Shanahan, Chief Financial Officer; Rusty McGranahan, General Counsel; and Tina Madon, Head of Investor Relations and Corporate Communications. (Operator Instructions) Please note this conference is being recorded. At this time, I'll turn the call over to Mr. Rusty McGranahan. Mr. McGranahan?

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 lists 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. We appreciate your continued interest in Focus. I am extremely pleased with our third quarter financial and operating results, which, again, exceeded our expectation.

Focus has performed exceptionally well despite the unprecedented macro backdrop this year, reflecting the strength and ongoing resiliency of our business. Our business is generating strong cash flow growth, with Q3 LTM cash flows available for capital allocations up 52.8% and reaching nearly $200 million. This demonstrates the significant value to shareholders of our CapEx light structure and tax-efficient acquisition model. Our strong cash flows create financial flexibility and enable us to reduce our use of debt to fund our M&A activities.

As our business grows, these dynamics will increase further. Our partner firms continued to do an excellent job managing their businesses, serving their clients and remaining nimble in adapting to evolving market conditions. We also began to capitalize on the substantial growth opportunity that is emerging.

As we expected, given the strength of our pipeline, M&A activity increased sharply in the third quarter from the prior quarter.

This momentum has accelerated further in the fourth quarter, reinforcing our industry leadership and a value proposition that resonates with prospective partner firms and merchant candidates alike. We're also taking advantage of our scale and the diversity of our business model to add value to our partner firms in highly innovative ways. I'm excited about the future prospects for our business and the initiatives we have underway to help our partners accelerate their growth and better serve their clients.

Year-to-date, we have completed 14 transactions, including 4 partner firm acquisitions and 10 mergers and signed an additional 6 transactions that we expect to close by the end of 2020.

We recently crossed a major milestone by completing more than 200 transactions since our inception, and we are on track to have one of the strongest years of transaction volume despite the conditions created by the pandemic.

We have extended our presence in key wealth management markets across the U.S. and extended our track record of acquiring excellent firms with strong records of growth. We have also further expanded our presence internationally. Through mergers, we are substantially accelerating the speed at which our partner firms are growing their businesses.

We remain highly selective and continue to maintain strong multiple discipline. We can do this because we acquire firms whose founders highly value their entrepreneurship and operational independence by gaining Focus as a partner.

Our business model is the only one in the market that is based on the noncontrolled structure, yet provides access to deep intellectual expertise in permanent growth capital. This is an important, but often overlooked competitive distinction.

Since June 30, we have acquired 4 new partner firms, managing nearly $14 billion in client assets, extending our track record of acquiring excellent firms with scale, management talent and strong growth. Collectively, we expect them to add approximately $44 million in revenues and $16.3 million in acquired base earnings annually, while increasing our net leverage ratio by about 1.25x.

These firms further diversify our partner portfolio and our cash flow, while also strengthening our competitive positioning in several of the most important wealth management markets in the U.S. Pre-Focus, these firms generated an average 2-year revenue CAGR from 2017 to 2019 of more than 15%.

The first was InterOcean Capital, a fiduciary wealth manager based in Chicago, with approximately $2.5 billion in primarily high net worth client assets. InterOcean is known for its strong investment management and financial planning expertise and a young dynamic management team with a growth mindset. InterOcean has a well-defined growth strategy to increase its footprint in the Midwest and Southeast.

The second was Seasons of Advice, a fiduciary wealth manager based in New York City, with approximately $700 million in high net worth client assets. This firm views ESG as a critical element of its investment management process. Its proprietary ESG portfolios will present a significant growth opportunity across all client segments especially younger and wealthier clients.

The third was Fairway Wealth Management, a fiduciary wealth manager based in Ohio, with approximately $1.6 billion in ultra-high net worth and high net worth client assets. Fairway offers an innovative combination of wealth management and family office services. It has a well-defined growth strategy to expand further in Ohio and the Midwest.

The fourth was Cornerstone Partners, a fiduciary wealth manager based in Virginia, with approximately $9 billion in institutional client assets. Cornerstone provides outsourced CIO and investment services to foundations and endowments nationwide, combining the advantages of a leading investment platform with the benefits of an internal investment office.

This is an important strategic transaction that meaningfully increases our presence in the high-growth OCIO space. Every time market leaders like these 4 firms join us, it not only strengthens our partnership and expands our national footprint, but also further validates the attractiveness of Focus' value proposition.

We head into Europe with no shortage of high-quality transactions and our momentum continues to build. We anticipate that our deal activity will remain healthy throughout 2021 as industry deal volumes accelerate. We believe we have a first mover advantage in deal sourcing given our extensive network of relationships and our partner firms are industry leaders who are well positioned to benefit disproportionately from postcrisis industry growth trends.

We are very proud of the quality and size of our partner group, which was reflected in recent Barron's rankings, 10 of our partner firms remained to the 2020 list of America's Best RIAs, comprising 10% of the total list.

As much as M&A and partner value add, is our calling card, so is our culture of innovation. In the forefront of industry trends and identifying opportunities for our partner firms to grow and better serve their clients are also compelling elements of our value proposition.

Our scale of well over $200 billion in client assets and the power of the diversity of our partner firms enables us to see opportunities for growth where others can't. One example of this is how working with our partners we have developed 3 unique approaches to creating an expanded service offering for artists and entertainers. This ultra-high net worth client segment is one in which coordinated services are not readily available, but can add significant value.

These clients typically use firms that provide family office and business management services to handle their personnel and financial lives. Our partner firms, who offer these services, can now provide a coordinated service offering that includes investment management capabilities, rounding out the suite of services they offer to this client segment.

As we recently announced, our partner firm NKSFB will be joining forces with Howard Capital, which is one approach to solving this issue. NKSFB is one of the largest family office and business managers in the U.S. and has relationship with many of the world's top entertainers, musicians, producers and athletes. This transaction will enable the Howard Capital team to offer investment management and sophisticated planning capabilities to NKSFB clients, meaningfully enhancing the value of NKSFB service offering and positioning it for accelerated growth.

Another approach is the Colony Group's acquisition of Glass Malek last year, which similarly address the need for coordinated client services for artists and entertainers. This transaction gave Colony an important West Coast presence, expanding their national footprint. It also diversified Colony's revenues and increased the proportion of nonmarket-correlated sources. Additionally, this merger enabled Colony to enhance its family office and business management, tax and financial planning services to these clients as well as add new clients who will take advantage of Colony's asset management capabilities.

In a third approach, our partner firms, Vista Wealth Management and Gelfand have recently teamed up on an initiative called Media Wealth that provides investment advisory and financial planning services to young and upcoming artists and entertainers, addressing a significant need for this client segment.

To close, we head into year-end with strong momentum on a number of fronts. Particularly in times like these high-quality fiduciary advice, it's tremendous value to clients, and, as such, our business continues to be resilient despite the ongoing macro uncertainties and our partners are performing extremely well.

Our financial and operating performance remains very strong, with healthy revenue and margin growth and well-controlled leverage. We have a robust pipeline with no shortage of high-quality transactions, and we anticipate a number of additional announcements by year-end. We continue to benefit from scale advantages no other player in this industry has, which, when combined with a strong culture of innovation, enables us to uniquely capitalize on the postpandemic growth within the industry.

While uncertainty in the macro environment continues to be significant, making it somewhat premature to comment on expectations for 2021, the momentum of our business is strong as we capitalize on the outsized growth opportunity that is being created by industry dynamics.

Our scale, diverse partnership, investment expertise and long track record give us competitive advantages that would be very difficult to replicate, and I'm extremely confident in the outlook for Focus as the market leader, both near and long term.

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

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

Good morning, everyone. Before we get started, I wanted to briefly address the changes we made to the presentation of our non-GAAP adjusted net income and our adjusted net income per share measures, which we have been using since our IPO.

Beginning this quarter, we disaggregated the presentation of both measures to separately show the tax adjustments associated with our tax intangible asset amortization.

This tax amortization is a powerful and, we believe, fundamentally undervalued feature of our business model. It is derived from the tax shield created when we make acquisitions, which, as of the end of Q3, provides us with approximately $1.5 billion of future gross tax deductions. We made this change in presentation to these non-GAAP financial measures pursuant to a normal ordinary course review of our filings by the SEC during Q3.

There were no changes to any of our actual reported results for historic periods, only to how these measures will be presented starting this quarter. Although ANI and ANI per share are now presented on a disaggregated basis, we believe it is important for investors to continue considering both elements when evaluating our financial performance and our valuation. This new presentation creates further transparency into the economics of our business as it separately highlights the value we create for shareholders.

Since 2014, ANI before tax adjustments and tax adjustments on a per share basis have been increasing at CAGRs of 28% and 39.3%, respectively, reflecting the consistently strong growth of our business and the value created by our tax-efficient acquisition model.

To make comparisons to historical periods easier, we have included the presentation of the annual data on a disaggregated basis from 2014 to 2019 as well as the quarterly data for 2019 and the first half of 2020 in our earnings supplement.

Now turning to our Q3 results. Our Q3 results were strong, coming in ahead of our expectations, which again demonstrates the resiliency of our business despite the unsettled market backdrop. We generated revenues of $331.5 million, slightly exceeding our estimated range of $315 million to $325 million.

Our organic growth rate was 2.4% year-over-year versus our initial estimate that would be essentially flat. Our adjusted net income, excluding tax adjustments per share, was $0.63, up 23.5% compared to the prior year period, reflecting the growth of our business, the favorable interest rate environment and our substantial adjusted EBITDA margin enhancement despite the impact of COVID on our M&A activity.

Our tax adjustments per share was $0.12, up 9.1% from the prior year period as a result of our M&A activity over the last year.

Now turning to the details of our P&L. The stability of our revenue model continues to be evident in our results this quarter and remains a key driver of the consistently high cash flows we generate. It bears repeating that the majority of our revenues are fee-based and recurring, not transactional, nor are they dependent on interest income or the direction of interest rates. Our revenues also come from diverse sources, which act as a natural hedge to the impact of market volatility. These are unique characteristics for our wealth management business and for financial service firms, generally.

Year-to-date, our revenues of $981.6 million were up 11.8% from the prior year period, reflecting the growth of our business despite limited M&A activity for the first half of this year. Our Q3 revenues were $331.5 million, up 4.7% over the prior year period. Our organic revenue growth was 2.4%, which accounted for approximately half of the total revenue growth in the quarter.

An estimated $246.2 million, or 74.3% of our Q3 revenues were correlated to the financial markets. Of this amount, 69% were billed in advance, generally based on Q2 market levels. The remaining 31% were billed in arrears based on Q3 market levels.

Approximately $85.3 million or 25.7% of our revenues were from sources independent of the financial markets.

In Q3, we closed 3 mergers. In Q4, we already closed the acquisitions of new partner firms InterOcean and Seasons of Advice. New partner firms, Fairway Wealth Management and Cornerstone, are signed and pending closing.

As Rudy highlighted, we estimated these 4 partner firms will contribute approximately $44 million in total revenues and $16.3 million in acquired based earnings on an annualized basis, or approximately $5.5 million in estimated revenue and $2.1 million in adjusted EBITDA in Q4 due to the mid-quarter closings.

Separately, a merger completed by one of our partner firms in 2019 was disaggregated and became its own partner firm on October 1. Therefore, the number of our partner firms will increase by one in the fourth quarter, but this will not otherwise impact our financial results.

Following the closing of our announced, but pending acquisitions, we will have 70 partner firms in total.

We have also closed or have pended to close 4 mergers for a total of 20 transactions so far this year. As Rudy noted, our M&A activity has accelerated meaningfully, and we anticipate that this momentum will continue into 2021. We have approximately $500 million of revolver capacity to deploy towards these opportunities. Although I would emphasize that our acquisition strategy is 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. 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 growth capital.

Year-to-date, our adjusted EBITDA was $231.1 million, 23.7% higher than the prior year period, and our adjusted EBITDA margin was 23.5%. Our Q3 adjusted EBITDA was $78.3 million, 12.9% higher year-over-year, and our adjusted EBITDA margin was 23.6%, slightly exceeding our 23% estimate for the quarter.

The results for both periods reflected strong year-over-year revenue growth as well as excellent expense management. Our partners continue to manage their businesses and clients exceptionally well despite the ongoing pandemic related headwinds.

Now for a few comments on our Q3 expenses. Management fees, our second largest operating expense, were approximately $86.4 million or 26.1% of our revenues. Management fees fluctuate in line with partner firm profitability each quarter and the relative consistency in this percentage is another example of how well our partners are managing their businesses.

We and our partners remain disciplined and nimble in controlling discretionary expenses even with the increase in M&A activity. Similar to Q2, discretionary expenses such as travel and entertainment and business development remained low as most of our partner firms continue to work remotely and social distancing guidelines remained in effect.

Also, our borrowing costs remain low as we are a significant beneficiary of the low interest rate environment. Our Q3 cash flow available for capital allocation was $194.1 million for the trailing 4 quarters ended September 30, 52.8% higher than the prior year period. The increase resulted from growth in the business, the new partner firms we added and our increased adjusted EBITDA margin.

We paid $14.5 million in earn-outs during the quarter, in line with our expectation of $15 million, and we estimate that we will pay about $10 million in Q4.

Now for a quick repack of our Q4 expectations. We estimate that our Q4 revenues will be in the range of $335 million to $345 million. This range reflects an essentially flat organic growth rate year-over-year for same-store organic sources, reflect a lower merger activity by our partners and a modest decline in our nonmarket-correlated revenues.

Excluding the effect of the decline in non-market correlated revenue, we estimate that our organic growth rate would be mid-single digits.

We anticipate that the portion of our non-market correlated revenues generated by clients in the entertainment industry from live advance movie productions and alike will continue to be impacted by the pandemic. It remains inherently difficult to predict these revenues, but if conditions don't change, we continue to estimate that approximately $12.5 million is at risk in Q4. Additionally, we estimate that our Q4 adjusted EBITDA margin will be about 23.5%.

Now turning to our balance sheet. We had approximately $1.3 billion in debt outstanding as of the quarter end, and our net leverage ratio was 3.67x. At current market levels, and with Q4 acquisition activities, we anticipate that our Q4 period-end net leverage ratio will be about 4x based on the signed and unclosed transactions Q4 to date. As always, we remain committed to maintaining our net leverage ratio between 3.5 to 4.5x, and we continue to believe that this is the appropriate range for our business given our highly acquisitive nature.

We remain disciplined in how we manage our balance sheet as we grow our business.

To conclude, we delivered a strong quarter in all fronts in Q3, and our results, once again, demonstrated the resiliency and stability of our business. Our partners continue to navigate the unsettled environment effectively, delivering solid growth, serving their clients well and taking advantage of our scale and resources.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Craig Siegenthaler with Credit Suisse.

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

So my first one is on M&A, and we're definitely pleased to see the pickup in acquisition and merger announcements over the last 2 months. But given rising competition for new transactions, I wanted to see if the deal structures, including the earnings preference and valuation multiples have changed at all since the summer.

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

Not really, Craig. As you know, this is a gigantic industry. We have built our network of relationships in over years and years and basically have a huge advantage versus just about everybody else in this space.

Our model is highly differentiated versus private equity because we are all about value-added. PE is just about money. Our model is highly differentiated versus banks or asset managers or foreign entities because we're all about entrepreneurship.

And quite frankly, our calling card is the quality of our existing partner group. Just about everybody knows a Focus partner and sees the power of these business models. And we had the uniqueness of our model.

I said on the last call, the way I look at these deals is like-to-like deals, all '06 versus now, maybe it's a turn higher. So really since 2006 when we started, maybe it's a turn higher, maybe it's turned in half but not more than that. You then compare this with our cost of funds, as you know, we are locked at $262 million for the next 3.5 years or so, which, of course, is a significant drop versus when we started.

So overall, the economic model is identical, if in fact -- if not better because there's so much more value added that we have now. And quite frankly, I'm not worried about the kind of the universe of other buyers out there. And just look at our numbers, we have announced now 20 transactions closed and announced year-to-date. We are guiding towards a strong finish of the year, a strong pipeline going into 2021.

There's just nobody who is even close to us.

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

Got it. And just for my follow-up, I want to follow up on Cornerstone Partners, an acquisition announcement, which you expect to close this quarter. You pointed out that it's an outsourced CIO business with institutional clients. Can you talk about what percentage of your existing business comes from this institutional asset management business and not wealth management with retail clients?

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

Yes. So this is really a new foray for us. We -- really, since the beginning of our Focus, we kind of tried to stay away from the institutional business intentionally because it's lower margins, it has lower client retention, it's usually more of a performance versus a broad advice business. So a tiny part of what we are doing today really is linked to institutional, but the institutional market is changing.

And what we are very much intrigued with is this OCIO model, where really endowments foundations see us start to look more a structure like private clients. And with Cornerstone, we believe we really have one of the best players, most robust players in this game to join us as a partner. Quite frankly, having met them and in due diligence we -- yes, we learned a lot from them already. I think it's really a first-class business. So to date, this is really our only true OCIO. But I think the more we learn, the more will see how our new partners are doing, the more we believe this is actually a market of interest to us.

Operator

Our next question comes from the line of Owen Lau with Oppenheimer.

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

So in terms of what goes into partner level and what goes into merger level, I recall at your Investor Day, you mentioned that there will be fewer partner level acquisitions in the future because of the scale or focus today versus, let's say, 5 years ago. So it looks like Seasons of Advice is much smaller than, let's say, Cornerstone in terms of AUM. Could you please talk about if there's any change in that thought process because of COVID? Or Season of Advice has a specific angle like ESG and a growth potential that's why it's at partner level?

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

Yes. Owen, there's certainly no strategic change in the way we are thinking. It's -- you can't -- every quarter will be somewhat different. We are -- one of the great powers of our business model that we have this year soon, these are 70 partner firms when you just look at what we have announced once these deals are closed. This gives us 70 platforms, not all of them are ready to be a platform, but many, many of them. And over time, every partner firm, who wants to be a platform, we will help them to become a platform. And that is just a unique and very powerful position.

Focus has a partner for just about any firm in quality firm in this industry that is looking to partner up with somebody else, yes? And there's just nobody like us in close. And that's a tremendous competitive advantage.

On balance, we always like to do mergers because, quite frankly, attractive economics because it really goes to the heart, of course, of our value-added. So it will fit strategically.

But then there are always cases where we are basically, I guess, maybe less of a good fit with one of our other partners, and firms who are basically saying, "You know what, I really, really want to stay as an independent operated partner firm, and I have great aspirations and I really want to take this business as my business here to the next level."

So Seasons of Advice, yes, this is a smaller firm in the context of direct deals. But there -- and you obviously saw it, the ESG strategy, which is really at the heart of what they are doing is absolutely terrific.

They've done this way longer before ESG, quite frankly, was a hot subject. We believe, and I think we discussed it on the prior earnings call. We see that ESG is becoming more and more important. They are wealthy clients, want to not just get good returns, but want to do good with their money and want to invest their money in a way that fits their -- kind of their ethics and their outlook.

And we were just really intrigued with what these guys are doing. It is a quality business with, I think, a great future, building particularly around this very well thought through and very well executed ESG platform that they have.

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

Yes. I think, Owen, we've often said, where is the best home for the firm? Where do you have the best client experience? Where do you have the best partner experience? The best results? Where is the investment philosophy aligned? Where is the best fit? That's what's critical in a lot of these decisions. Is it a partner or is it a merger, as Rudy just explained.

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

Got it. That's very helpful. And then in terms of the $12.5 million revenue at risk, I think in the previous call, you also mentioned there is some headwind in the entertainment industry and family office activities. Did you see any impact in the third quarter?

And then why do you still expect a $12.5 million revenue at risk in the fourth quarter?

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

Yes, yes. And this, of course, is all related to live events. It's somewhat also film productions. And yes, we have seen an impact in Q3. We -- it's hard to really quantify the final number. But we guided towards a $25 million impact over 2 quarters.

And clearly, live events are not opening up. And we saw some better dynamics on the movie side, where teams travel international and, basically -- but this is still the exception versus the rule. And quite frankly, some of these productions left Southern California and went to other states.

But reality is, yes, this is -- this impact is real. This impact we, unfortunately, will expect against $12.5 million in Q4. But the good thing we firmly believe is this creates a pent up demand that whenever there hopefully is a vaccine, whenever this is behind us, we are highly -- we are convinced this pendulum will go the other way. People will love to go to these events here. People will be very, very active celebrating these phases behind us. And then I think what is today a challenge is going to be a very powerful growth driver for this part of the business.

Operator

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

Michael Roger Carrier - *BofA Merrill Lynch, Research Division - Director*

My first one is just on M&A, Rudy. It's good to see the pickup in M&A activity. But given the still uncertain backdrop, just curious if you're still seeing some cautiousness on the part of firms wanting to transact and where that may stick versus like historical levels? And then have you been able to do the necessary due diligence given the pandemic? Or have most of these long-dated relationships and conversations. So you already know a lot that you need to know about these firms?

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

Yes. So due diligence is not an issue. You're correct, many of these firms we know for years and years. And the stars are aligned and the transaction happened. And of course, we go through our regular due diligence program. And of course, that's very systematic and they are just touch us by our results. We have honed this line, 200 transactions and just have tremendous expertise in this area.

Quite frankly, I still see just about every firm that we are closing, quite frankly, it is always very, very good that you do have some set of private meetings where you can also meet the broader team. So we are still out there, but reality is this industry -- and just look at this, what I believe, just really powerful numbers that we demonstrate quarter after quarter and, of course, the Q4 guidance.

What it all speaks to is this is an industry that can operate remotely. This is an industry where, currently, particularly right now, advice is critical. And this is an industry where our business model resonates, and we can execute transactions just quarter after quarter.

And our guidance on the pipeline is strong. So we feel our M&A business has some impact, of course, and certainly early in the year. But no, I think, the opportunities will continue to be very, very attractive.

Michael Roger Carrier - *BofA Merrill Lynch, Research Division - Director*

Okay. Great. And then, Jim, just 2 clarifications on the organic growth and the margins, just given the COVID backdrop. So you mentioned the organic growth in 4Q likely being kind of flat or similar growth in the third quarter.

And on one hand, like markets are higher. It seems like mergers are pretty active. But then you guys mentioned some of those live event fees still being a pressure point. So I'm wondering if that maybe the reason why that organic growth rate is not picking up? And if you can maybe quantify how much that's pressuring organic growth rate? And the same thing on the EBITDA margin, like given that some of the COVID environment like P&E has been flat. When you think about that normalizing and those fees normalizing, any big change on the EBITDA margin?

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

Yes. So as Rudy had mentioned, obviously, we're a bit cautious based on the COVID environment. I did say in my prepared remarks that without this noncorrelated impact, we would have been mid-single-digits on organic growth. Some of the merger activity that we just announced in this quarter is more back-ended in the quarter. And that sort of gives us the guidance range that we provided of $3.35 to $3.45.

From an EBITDA margin perspective, a lot of our firms are billed in advance. So we've provided a guidance of 23.5%. If you do the math on the new firms that have been added in Q4 here, it's $16.3 million of acquired base earnings on $44 million of estimated revenue. So those new 4 partner firms would contribute 37%. Most of them are back ended in Q4, but obviously that would have a favorable impact in future periods.

Operator

Next question is from the line of Alex Blostein with Goldman Sachs.

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

I wanted to go back to one of your earlier comments, Rudy, around some of the partner firms working together more proactively, I guess. Can you help us contextualize what that means from an either organic growth perspective, kind of wallet share or something like that, or any other sort of operational and financial benefits that we could see that sort of cooperation come through in your financials?

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

Yes. Yes. Absolutely. So basically, when we entered this ultra-high-end, multifamily office business management space, we, of course, had a certain strategic expectation. The -- it's a great revenue diversifier, COVID, we didn't quite see coming, of course, but nobody else did either. And we just see it as a very powerful diversifier of our revenue base, another source of sustainable excellent growth.

The second aspect we had was these business managers, they do everything except managing clients' money. And they are very important advisers in the relationships with these artists and entertainers and the athletes. And there are many, many billions of client assets that ultimately are not really managed through our partner firms.

We then spent a lot of time with our partners who run these businesses. We're really understanding how they could round up these advisory models. And what we highlight on this earnings call is what we created here is with our partners, we with our partners help create it here, is just a new model in this entertainer space, and that really didn't exist before in any scale. And what I love about the way we are doing it and consistent with the culture of Focus, we have 3 different firms with 3 different unique approaches to the same opportunity.

And what it ultimately -- of course, it's early days, we just announced this, but what we ultimately expect is that this will contribute to the organic growth. Yes, I hate to use this word, but it's kind of a cross-sell proposition. We don't usually talk about cross-selling in traditional sense. But early indications are this is going to be very exciting.

Of course, it will take some time to ramp up. But it really speaks to the scale and the diversity of the Focus business model, where we, yet again, are leading the market, leading this industry into a new dimension that, quite frankly, nobody else can really replicate because we have a market share in the space that is very, very high. And quite frankly, nobody else has this type of footprint that we have, and it's yet another unique advantage that we have in our business model.

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

Yes. And then on the M&A front for new transactions, it sounds like you're not seeing any material changes in terms, and you kind of start staying disciplined to what you've outlined in the past. Can you just remind us if you are seeing any changes on the percentage of ownership you're willing to buy here give or take, we generally assume 50%, but curious if that's changing in one way or another?

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

Yes. Alex, discipline is our middle name. Fortunately, because of the power of our value proposition, we are disciplined, we can remain disciplined and there's really no change or in any materiality as it relates to deal structures, as it relates to percentages, as it relates to the way our M&A business operates. So it's -- when you have this powerful value proposition and track record, quite frankly, you just see good opportunities again and again.

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

Yes. I think, Alex, we've often said we operate in the 40% to 60% range, generally towards the midpoint of that range. There could be quarters that could be a little higher than that, and there could be quarters a little lower than that. Everything is subject to negotiation with the new partner firms that are joining and what's best for the business and what's best for the new partners that are joining.

Operator

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

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

(technical difficulty)

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

Chris, I was really struggling to hear you. Your line goes in and out. I think you are asking about Cornerstone OCIO. Is that correct, Chris?

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

Yes. (technical difficulty)

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

You are virtually impossible to hear. But maybe to say a little bit more on Cornerstone OCIO. So, as I said, I think this is a new ground for us, but it's a really high-quality team with tremendous track record in doing what they are doing. They show client retention rates that are very attractive, given that they're in the institutional space.

It's really the first OCIO firm that joins us. This is where the institutional model converges towards this high relationship. Of course, discretionary business model that we have on the high net worth side, and ultra-high net worth side.

And yes, so we are very excited about Cornerstone joining us. We're excited about this model. We will learn a lot from them. Hopefully, here and there, we can help them as well. And it's certainly an area that we are getting increasingly interested in.

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

Okay. (technical difficulty)

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

Chris, unfortunately, I can really not understand the question you're asking. Maybe we can talk later on the follow-up calls. But I just -- sorry, I just can't hear what you're asking.

Operator

Our next question is from the line of Michael Young with Truist Securities.

Michael Masters Young - *Truist Securities, Inc., Research Division - VP and Analyst*

Wanted to maybe just start kind of with a follow-up on the entertainment-related revenue headwind. It seems like, from a bottom line perspective, it could work out nicely that as that revenue is coming kind of back into the fold that would be the same time that maybe T&E type expenses would be increasing for the industry as a whole. Do you think that those would kind of balance one another out to have very little bottom line impact as we kind of come out of the pandemic at some point?

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

That's an interesting question. Of course, there is no causality, but there's an indirect causality. It's hard to truly predict both. You're absolutely right, Michael. Both ultimately, I think, a lot to do with a vaccine and kind of the normalization of kind of daily lives.

Quite frankly, if I was guessing then these revenues probably will recover with a vengeance and, hopefully, faster than expenses on the T&E side. Of course, the magnitude is also very different. So we'll see where -- when it happens. But yes, you're 100% right. There is an indirect causality link that makes these two things more tightly linked potentially than what you would expect otherwise.

Michael Masters Young - *Truist Securities, Inc., Research Division - VP and Analyst*

Okay. And just kind of -- I was wondering if you could maybe just talk maybe geographically about M&A and kind of the pipeline, more curious just generally on the pipeline and the amount of dry powder you have left, if you expect to kind of press forward with more acquisitions in the first half of the year in a more meaningful way? And then just anything on geographic focus with partner firms? Are there certain areas that you're targeting?

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

Yes. So we have been really geographically agnostic in many ways. In this industry, there are excellent firms just about everywhere. We have -- just as an illustration, we got 8 firms in California, Massachusetts, New York, 6 firms in Georgia, 5 firms in Illinois, and of course, in many, many other geographies.

We look for quality of firms. We look for fit. We look for culture. We look for entrepreneurship. And what always amazes me in this industry is you can find fantastic firms in many locations. They almost always operate in multiple states and, quite frankly, many of them are, of course, operating on a national level.

The one aspect of geography that is very important is, of course, U.S. versus international. We are having great success in Australia. We love our new partner firms up in Canada, joined us earlier this year, Nexus. We have -- quite frankly, we see some interesting opportunities in the U.K. So yes, stay tuned. There will be some interesting announcement coming out of international. It's an area we have great interest in, and we see just terrific opportunities.

As I said, we are not really worried about competitive dynamics in the States in any material way. And in these markets, quite frankly, there's simply no competition whatsoever. We are very unique in what we offer, and, yet again, have a head start versus everybody else, which, in reality, gives us further competitive advantages.

Australia is closed from a travel perspective. They wouldn't let us travel there right now. So we have learned to do even this business now through video conferences and calls. My co-founder Rajini is leading these initiatives, and she is just doing a fantastic job building the franchise there, and stay tuned, there will be more announcements.

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

And I guess from a capital perspective, as of September 30, we had over $500 million of dry powder on the revolver and over $42 million in cash. Quarter-to-date, we've already deployed $51.4 million of cash on transactions that closed, and our leverage was 3.67%, and we continue to say that we're going to operate in the range of 3.5% to 4.5%.

So we have plenty of dry powder there. And obviously, one of the metrics that is a major focus of us is the cash flow that we're generating. And on an LTM basis, it was almost $200 million, and this continues to grow as the partnership grows. So it's all these type of capital items that will help us with our pipeline into the future.

Operator

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

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

Great. Maybe just one for me this morning. At Investor Day, you kind of outlined a handful of value-add services, I think, that were incremental to our sort of on the path to 2025. But perhaps you could provide a bit of an update on how some of those services are rolling out? What the demand looks like? And perhaps anything incremental to those services or business solutions? Or how do you like to call them?

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

Yes. That's actually a very important question, and thanks for asking it. As you all know, Focus is all about finding excellent entrepreneurs and then surrounding them with value-added services that are second to none is this industry, and, of course, providing them access to permanent capital, which just allows us to keep on growing this business in a highly differentiated way.

On the value-added side, the -- it's really execution on the programs that we announced, our Focus business solutions. So these are all the practice management areas that we have, where we are helping partners just get better and better at what they do through the techniques, through expertise, through purchasing power, through just you're staying ahead on the innovation side of the business.

I think I'm very excited about some of the things I'm seeing on the technology side these days. We work with just about all the leading providers in this industry, and there's some really exciting things that we are seeing that help our partners provide more services and better to clients and be more efficient.

Quite frankly, we see very excellent initiatives on the marketing side. Our Head of Marketing, John Mittnacht there is working with many, many of our partner firms and really helping them, particularly in times of corona how to stay close to clients, help them with client events, repurpose marketing materials in an event, and I really like what we are seeing there.

Focus Client Solutions, that's the second leg of our value-added initiatives. I think I said it in the probably Q2 or in the Q3 call already, with cash and credit, we simply were in the right spot at the right time. Program, which is, again, we don't look at this as a profit center. We look at this as a way to help our partners expand their offering to clients. This proposition where we ultimately equip our partners with all the tools and capabilities of a sophisticated high-end private banker without any of the package of having to work for a bank is just proving out to really work particularly in the ultra-high net worth space, where, of course, access to credit and efficient access to credit and cash solutions is very important.

So I do really like what we see, and I think there's just tremendous opportunity going forward. I think what we have in this industry is absolutely unique. And we are exploring and nothing to announce. But in terms of subject areas trust, I think there will be some very interesting things we are going to discuss sometimes in the future, access to your various insurance and other solutions we are working on.

So more things to come, none of them directly is a profit center, but all of this is ways to, ultimately, put more tools into the arsenal of our partners and, ultimately, help them to attract more clients, to retain more clients and, of course, ultimately, help them protect and grow their businesses. And then there's obviously, we get roughly 50% of the upside, so very consistent with the core model that we have at Focus.

Operator

Our next question is from the line of Patrick O'Shaughnessy with Raymond James.

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

So competition to buy RIAs seems to have shifted away from banks and private equity and towards branded acquirers, names like Credit Plan and the CAPTRUST. What are the implications for that shift on Focus?

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

Yes. Of course, I don't want to comment on any specific firms out there. (inaudible) continues to be very active in this space. And -- but they have no value add, this is just money. And then the big challenge for private equity, of course, is that 3, 5 years later, the deal is up again. And then the principles, you don't control any more this transaction. So they are really beholden to the owner, and this can create, from a client perspective, very unpleasant dynamics. And quite frankly, it's really not in the interest of clients. So I think that's not a competition that I fear.

There are some well-published kind of -- there are some amateurs in this industry who seem to be paying multiples that are just absurd. Foreign buyers in similar, but they over washout, it's only a question of when.

Branded competitors, the -- usually this is a totally different value proposition than what we have. What makes Focus unique is that you are the entrepreneur, that you run your shop, it is your culture, it is your business. But then you're surrounded with all these value-added capabilities and capital that help you take your business to the next level. That's unique. That's this space that we occupy. And our scale simply enables us to create solutions for these partners that nobody else can dream of.

So some of these propositions, you're turning to an employee worse, you're not just an employee, but ultimately, everything gets centralized. Your staff loses their jobs because they are no longer needed, and you are just a salesperson for some large machine that does whatever they do. And this is -- works for some advisers, but for many, and particularly for well-established, growth-oriented younger firms, they just don't want to be somebody's salesperson. And these models just wouldn't be attractive to them.

I think there is space for everybody to -- for many -- not many -- there's space for many models or a number of models to succeed in this industry. But what we -- the space -- we own the space, we occupy the space, we now have soon 70 partner firms and well over 4,000 people. It's the space where entrepreneurship and growth through value-added and capital access is unique, and we are the only game in town.

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

Got it. And then, Jim, in your prepared remarks, you spoke to an entity that was a previous merger and it's splitting to become its own partner firm. Can you walk us through what the rationale was for that split?

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

Sure. We just had a partner firm in the Northeast had completed a merger a couple of years ago in the Arizona space. They were relatively equal in size. And just based on the geography, it was better that each of them become platforms in their own respective local markets.

So that's kind of what happened. It had no economic impact on our financials or anything, just an incremental count to the number of partner firms. So we thought we should just share it because we're starting Q3 -- I'm sorry, we ended Q3 with 65 partner firms. We have the 4 announced and then we have this transaction. So that's how we result in the 70 count.

Operator

Our final question is from the line of Kyle Voigt with KBW.

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

Maybe just one for me just at a higher level. Just wondering if you can get an update on disclosures. You've added a number of new disclosures, guidance over the past several quarters, which were all very much appreciated by the investment community. Just wondering if you have plans to continue to enhance those disclosures moving forward? And just wondering if investors should expect some disclosures on AUM or flows or other performance metrics as we head into 2021?

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

Yes. We have always listened to The Street and listened to, of course, the research community and the investors. We constantly work on finding new ways to describe our business and disclose what we are doing. Quite frankly, the change that we had here in the third quarter, in some ways, was actually, I think, very positive -- a net positive because now it really highlights the power of our acquisition model, and there's roughly $1.5 billion tax -- amortizable assets that, of course, has tremendous value from a shareholder perspective.

And Jim and I, quite frankly, we're always somewhat frustrated that people don't really focus on it. Well, now it's black and white in every earnings announcement that we are doing. So I think it really, hopefully, will just get more attention in this tremendous asset that we build every time when we do a transaction.

So yes, we need to be nimble. We need to focus on where we are going. Maybe another aspect that's important is we -- you probably noticed we talk much more about the firms that are joining us. I think we learned that it's really important that the investor community understands the quality of firms that we bring in, they understand the business model.

I was very excited about the OCIO conversations we had before. And so you'll hear more and more about the partners. You will meet partners on various conference calls, and this is another important part of our disclosures.

So net-net is, I guess, nothing specific at this point, but Jim and I are constantly -- and Tina, of course, are constantly focused on really addressing the other needs of the investor community.

Operator

At this time, I'll now turn the call back to Rudy for closing remarks. Rudy?

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

Thank you. And in closing, I want to thank our partners and employees for their hard work and relentless drive. I'm very proud of our business performance in the quarter and year-to-date. This is especially true given the unprecedented circumstances our global community is living through on just so many levels. We are confident in our partners' ability to continue navigating effectively and nimbly, adapting to meet the evolving needs of their clients.

We are intensely focused on sustaining our momentum as we build our business and maximize the scale advantages that we have. We firmly believe that the uniqueness of our value proposition will continue to make us the partner of choice and enhance our already strong leadership position. I am incredibly excited about the growth potential of our business in the coming quarters, and thank you all for your interest in Focus.

Operator

Thank you, everyone. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.
