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PRESENTATION

Operator

Good morning. I would like to welcome everyone to the Focus Financial Partners 2021 First Quarter Earnings Call. Joining today's call are Rudy Adolf, Founder and CEO; Jim Shanahan, Chief Financial Officer; Rusty McGranahan, General Counsel; and Tina Madon, Head of Investor Relations and Corporate Communications.

(Operator Instructions) As a reminder, this conference is being recorded. I would now like to turn the conference over to your host. Mr. McGranahan, please go ahead.

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

Good morning, everyone. Before we begin, let me remind you that during the course of this call, we may make a number of forward-looking statements. We call your attention to the fact that Focus' results may, of course, differ from these statements. These statements are based on assumptions made by an 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, uncertainty 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, and good morning, everyone, and thank you for joining our call. As always, we appreciate your interest in Focus. This morning, we announced another quarter of excellent results, reinforcing our clear leadership in the wealth management sector and the continuation of our long-term track record of exceptional financial performance.

We generated $394.2 million in revenues, adjusted net income excluding tax adjustments per share of $0.80 and tax adjustments per share $0.13. Our revenues were ahead of the top end of our Q1 expectations, reflecting strong year-over-year organic growth and further acceleration of our overall business momentum. Our cash flow also continued to grow rapidly. We saw Q1 last 12 months cash flow available for capital allocation of $219.9 million, up 51.8% year-over-year. We also reported a first quarter of adjusted EBITDA in excess of $100 million, which is a substantial milestone that further reinforces the benefits of scale to our business.

Our partner firms remained agile in navigating the unsettled macro backdrop during Q1, delivering outstanding service to their clients and growing their businesses, with the 12.2% organic revenue growth we achieved this quarter as evidence of their strong performance. Our partners' clients are sophisticated ultra-high net worth and high net worth individuals and depend on their advisors to help them manage the complexities of their financial lives and legacies as market and economic conditions evolve. Providing highly personalized integrated advice is exceptionally valuable to these clients, especially during periods of market volatility and in evolving tax and estate planning landscape.

Following the most active quarter in our history in Q4, our M&A momentum remains strong into Q1, and that is continuing into Q2. We have added 3 new partner firms year-to-date, including Prairie Capital, which is approximately $5 billion in client assets, extending our track record of adding excellent firms that are value accretive. We also completed 4 mergers on behalf of our partner firms, which included 2 for Connectus and 1 for SCS Financial, our partner firm in Boston that serves ultra-high net worth clients. We anticipate that our partners will take further advantage of the substantial industry growth opportunity to increase their scale and bolster their growth.

Our pipeline is excellent and is building further with a good mix of new partner firm acquisitions and mergers, including Connectus, which has a solid pipeline of mergers, both in the U.S. and internationally. As a reminder, Connectus is a Focus Partner firm, is a hybrid acquisition alternative that expands our addressable market globally. Connectus is a semi-autonomous model designed for teams who want to maintain autonomy over their client relationships, but utilize the shared infrastructure Connectus offers to optimize the efficiency and solve for growth.

Against the backdrop of increasing industry M&A volumes and an evolving competitive landscape, the Focus model continues to resonate. Our value proposition is based on 3 core principles: independence, access to permanent growth capital, and value added services and expertise. These are the unique characteristics of our model. This combination remains highly differentiated when compared to the alternatives, creating an enduring source of competitive differentiation and enabling us to continue attracting excellent entrepreneurs.

In Q1, we further expanded our presence in the ultra-high net worth segment through the formation of Beryllus Capital, our joint venture with the Hinduja Group, which is one of the most prominent ultra-high net worth families in the world. Beryllus is a multi-family office that will use its global presence to cater to similar families and individuals through offices in London, Geneva and Singapore. Beryllus extends our international reach into Asia and continental Europe, which we believe over time will create additional avenues of growth for us, particularly in the ultra-high net worth space.

This segment of the wealth market has been an increasing strategic focus for us, both in the U.S. through partners like SCS, Kovitz and Gelfand, Rennert & Feldman, as well as internationals through partners like Prime Quadrant in Canada and Escala in Australia. According to BCG, ultra-high net worth client assets are approximately $27 trillion globally. And North America is the fastest growing region within the segment. This market is attractive not only because of its size and growth, but also because of the sophisticated and evolving needs of ultra-high net worth individuals and families. Many of these individuals are entrepreneurs and innovators who will be at the forefront of capitalizing on the learnings from COVID and rebuilding the global economy.

As the wealth landscape develops, we need for -- the need for scale, highly specialized services, and the ability to offer choice will become increasingly important. We are well-positioned to support advisors and clients in this space not only because of our partners and the Focus team itself are entrepreneurs, but also because of the continued evolution of our value added services in areas that are integral to providing holistic wealth management solutions.

We are adding capabilities in insurance, trust and fiduciary solutions, valuation services, business development and alternative investments, and we continue to enhance our cash management and credit offerings. These are the types of scale initiatives that add significant value to our partners and their clients, and will help increase our partners' organic growth over time. For example, we will be making a portfolio of insurance offerings from leading carriers available to our partner firms beginning in Q2. Key areas will include property and casualty, life and disability, executive benefits and individual and business health.

Additionally, we will offer curated concierge services in a range of specialties, such as reputation risk and damage insurance. We'll also offer dedicated trust services to our partner firms later this year. These services create a significant opportunity for wealth advisors to expand and retain multi-generational client assets over time. We are creating a trust offering through a network of high-end and advisor coordinated independent trustees, with the scale and expertise to meet the diverse needs of our partner clients and can do so at a highly competitive pricing.

Separately, high quality alternative investment offerings have become a central theme for sophisticated client portfolios. Our partner firms will be able to access industry-leading private investment strategists through SCS Investment Partners, the asset management arm of our partner from SCS Financial. Through SCS, our partners will have access to some of the best performing private equity managers with attractive pricing. We are working with a number of additional partners who offer attractive investment solutions to join this program.

As we turn our sights to the second quarter and the remainder of this year, I have no question that Focus will continue on this path of success and anticipate for the strong expansion of our earnings. It bears repeating that we are uniquely positioned in a multi-trillion dollar global industry that has significant tailwinds, and we believe that Focus is the best positioned business in the world to benefit from these dynamics.

Additionally, we are not solely an acquirer of RIAs, and not all of our partner firms manage client assets as a result. We acquire in multiple complementary markets and geographies and allocate our capital to the highest growth opportunities. Not only does this enable us to continue building a portfolio of partner firms that are highly complementary, it also creates significant portfolio diversification that is the foundation of our consistently high revenue adjusted EBITDA and adjusted net income, excluding tax adjustment growth rates. This is an extremely important competitive advantage, and we believe is still underappreciated by the investment community.

Before turning the call over to Jim, I wanted to briefly touch on the secondary offering that we completed in Q1. For the first time since investing in focusing 2017, our private equity sponsors monetize a portion of their holdings in a sale of approximately 8 million class A common shares at $48 per share, which increased the liquidity of our stock. As a reminder, the Focus management team did not participate. While the size of this transaction likely had an adverse impact on our share price, it caused no dilution and there have been no changes to the fundamentals of our business.

In summary, we are very well positioned for growth in the years ahead. And our 2021 and 2025 growth targets reflect this. We are a clear leader in the wealth management sector and the trajectory for our business momentum continues to increase. Our diverse partnership of more than 70 firms globally creates enduring scale advantages, reinforcing the sustainability of our strong growth for many years to come. I remain very excited about the outlook for Focus, both near and long term.

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

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

Thanks, Rudy, and good morning, everyone. We delivered excellent Q1 results, outperforming our expectation across all measures and we are very pleased with the strong performance and growth of the business. As Rudy noted, we continue to enhance our presence in the ultra-high net worth space, expand our international presence and further build out our value added offerings, creating multiple levers for the future growth of our partnership. We are operating in a sector of the wealth management industry with strong underlying growth fundamentals, which the pandemic has further accelerated.

Now let me turn to the details of our Q1 P&L. Our revenues were $394.2 million, up 16.9% year-over-year and slightly ahead of our estimated range of $375 million to $385 million, as our organic revenue growth across the partnership of 12.2% was moderately higher than our estimate of 7% to 10%. Our Q1 adjusted EBITDA was $101 million, up 29.4% year-over-year. This result reflected in adjusted EBITDA margin of 25.6%, which was well ahead of our 24.5% expectation due to the higher organic revenue growth and lower operating costs relative to revenues.

As Rudy noted, this is a significant milestone. The embedded operating leverage in our business reflects another benefit of the scale we have achieved to date. While we anticipate that there will be some adjustments to our expenses as employees return to the office and certain variable costs such as T&E will increase, we believe that our margins will benefit further from this operating leverage as the top line growth of our business outpaces the growth of our expenses over time.

Our adjusted net income, excluding tax adjustments per share, was $0.80, 29% higher year-over-year, and our tax adjustments per share was $0.13, up 8.3% for the comparable period.

Our M&A momentum remained strong during Q1, and that continues to Q2. We closed 1 new partner firm, Hill Investment Group, on March 1 and 2 additional partner firms, Prairie Capital and Rollins Financial on April 1. There was no meaningful Q1 revenue or adjusted EBITDA contribution from Hill due to its late closing in the quarter, but we estimate that Hill, Prairie and Rollins will contribute in aggregate of $7 million of revenues and $2.6 million in adjusted EBITDA in Q2.

In Q1, we completed a merger in the U.K. for Connectus. And year-to-date, we have completed 4 mergers, which included the Matheys Lane merger for our partner firm SCS Financial, and a merger in Australia for Connectus. This is our fourth Connectus merger in Australia since Connectus entered this market last December.

As Rudy highlighted, our acquisition [pipeline] is robust. While the signing of transactions is inherently difficult to predict, our pipeline for this year remains substantial and is growing. M&A activity across the industry continues to increase and joining the Focus partnership remains exceptionally attractive to wealth managers looking at their next steps. It bears repeating that becoming part of an international network of 70 partner firms who are each industry leaders, who are highly entrepreneurial and at the forefront of client service and who are led by excellent management teams is unique in the wealth management industry. No other company in this space offers this value proposition, which is supported by the benefits of permanent capital investment or has anywhere near our scale.

The array of resources we can offer our partner firms as a result helps them accelerate their organic growth. They are able to offer resources to current and prospective clients that would be difficult to source without Focus' scale advantages and intellectual capital. Our partners also benefit as we expand our position in the ultra-high net worth space globally. Through serving some of the most [complex] and sophisticated clients in the world, we gain insights and expertise that we share with our partners and are the catalyst behind many of the value add services we now offer.

Now turning into our Q1 expenses and cash flow. Management fees were $102.1 million, up 25.9% of revenues, slightly lower as a percentage relative to Q4, which highlights the ongoing benefits of our variable cost structure. Our noncash equity compensation expense was $12.4 million, which in part reflect investment in certain long-term awards that were modified invested during the quarter. We expect noncash equity compensation expense to be approximately 1.5% of Q2 estimated revenues.

Q1 also reflects a $25.9 million increase in noncash changes in the fair value of estimated contingent consideration, reflecting an increase in the fair value of estimated earn-outs pursuant to our Monte Carlo simulations. Stronger organic revenue growth, including the effect of market conditions, drove the increase in the fair value estimates of these liabilities as of March 31st.

Our LTM cash flow available for capital allocation as of March 31 was $219.9 million, 51.8% higher year-over-year, reflecting the growth of our partnership as well as the addition of 7 new partner firms and 15 mergers during this period.

In Q1, we paid $4.1 million of tax receivable agreement payments, in line with our guidance. We also paid earn-out obligations of $10 million, in line with our guidance. And we anticipate that we will pay cash earn-outs of approximately $55 million in Q2, which includes estimated payments for certain Q2 acquisitions.

As a reminder, our cash flow in future periods will continue to be enhanced by our $1.7 billion unamortized gross tax shield as of March 31. We expect the value of this tax shield will continue to grow given our highly tax efficient acquisition structure, and would also be enhanced by any increase in corporate tax rates.

Now turn into our Q2 expectations. We estimate that our Q2 revenues will be in the range of $405 million to $415 million. While our Q1 organic revenue growth rate was 12.2%, we estimate a Q2 organic revenue growth rate of 23% to 26%, which reflects the impact of the sharp COVID-related decline in market levels on our Q2 2020 revenues.

Our Q2 expectations also reflect our M&A momentum together with the organic revenue growth our partner firms are generating. As expected, we anticipate the family office type revenues related to live events, movie productions and the like will normalize later this year with the wide availability of COVID vaccinations.

We also estimate that our Q2 adjusted EBITDA margin will be about 25.5%. Assuming market conditions stay constant at current levels, we anticipate that our full year 2021 adjusted EBITDA margin will be around 25%. We continue to expect that we will update our long-term adjusted EBITDA margin target of 24% in the second half of this year, as return to work plans become clear and business development, travel and other activities return to normalized levels. We remain confident that we will deliver full year 2021 revenue and adjusted net income, excluding tax adjustments per share growth in excess of 20%.

Now a few comments on our balance sheet. We ended Q1 with approximately $1.6 billion of debt outstanding and a net leverage ratio of 3.79x. Assuming the markets stay constant at current levels, we anticipate that our Q2 net leverage ratio will be in the range of 3.5x to 3.75x as a rapidly increasing cash flow available for capital allocation continues to reduce our need to use debt capital to fund our M&A activity. We remain committed to our net leverage ratio range of 3.5x to 4.5x, which we believe is the most appropriate range given the highly acquisitive nature of our business.

We have approximately $1 billion of capital to deploy based on our revolver capacity, cash on hand as of March 31 and the cash flow we expect to generate this year. We will remain disciplined in the transactions we pursue and the multiples we pay. We have a number of attractive acquisition opportunities, both in the U.S. and internationally.

In conclusion, we delivered excellent results in Q1, and the growth trajectory of our business remains very strong. We executed well and our M&A momentum is robust. We continue to expand our international and ultra-high net worth footprints and took advantage of our scale to grow our presence in the ultra-high net worth market. We also substantially expanded the depth and breadth of our value add services during the quarter, providing scale advantages to our partners and enabling their advisors to deliver superior client services.

All of these outcomes are a function of the scale and profitability we have built since our IPO and further reinforce our competitive differentiation. Without the scale we have today, we would not have the visibility, insights or financial flexibility to invest and drive the growth of our business. We are excited about the path ahead, and we are confident that the robust growth and continued evolution of our business position us to deliver strong, sustained returns for our shareholders.

With that, let me turn the call over to the operator for Q&A. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line Craig Siegenthaler with Crédit Suisse.

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

So my first one is on taxes. Can you talk about how the prospects of higher capital gain taxes could impact the Focus business? And I'm thinking mainly about an acceleration to RIA M&A, but also how it could impact the underlying clients too, including flow trends.

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

Yes, absolutely. Craig, this is obviously a very complex question because it has so many facets. In the short term, clearly, we do believe it will have an accelerating impact on our M&A activity, not dramatically, but still I think meaningfully, because in so many discussions we are having, quite frankly, this is an important subject. It certainly will turn, medium term, you're probably more into a headwind, because when you're in the wealth management business, and more and more of the wealth is taking away from -- by the government, for sure, it will have some impact on just what we are managing.

However, this probably is offset by really the need for high quality advice. And our partners, quite frankly, when I talked to them, they've never been busier with clients trying to anticipate what may be coming out of Washington and the local governments, and then ultimately understanding what is the impact for estate planning, what is the impact for tax planning. Quite frankly, where people want to live, there's of course a major migration of people happening in the country right now.

So net-net, hard to predict very long term if it has an impact on the economy, on the wealth generation, probably a headwind. Short term, from an M&A perspective and most certainly from a need for advice, need for quality fiduciary advice, probably a major positive.

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

Got it. And then Rudy, sticking with M&A for a moment, can you comment on how valuation multiples have trended in the U.S. across your verticals, just given what looks like much higher competition especially last year, and then also contrast this to the valuations you're seeing in international markets?

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

Yes, yes, absolutely. Of course, we have a very unique position, because ultimately our value proposition of valuate, entrepreneurship and permanent capital, simply nobody else can credibly claim. And so we are operating in a very attractive niche. I said it on the last earnings call, our multiples were basically flat over the last 3 years. Technically, in fact, Craig, they were a little bit down last year versus the prior year and again the prior year. So it's all around the power of the value proposition, and quite frankly, simply the credibility of a consistently executed strategy by the market leader.

You're correct, we see some, let's say unusual multiples occasionally. But quite frankly, we have seen these patterns many times in this industry, and yet in so many ways, they're always the same. So some inexperienced newcomers enter the space, usually with a poor value proposition. So really, all they can do is pay higher multiples. And then quite frankly, they realize that they have overpaid, and then the pattern repeats itself.

First, they announce that all these firms that they acquired now operate under their brand, which quite frankly has very little value in this industry. Then they introduce mandatory platforms, and then they start encouraging them to sell their frequently underperforming, overpriced products. And finally, they encourage, they force their advisors to increase prices on their clients.

Usually, it's just because of the way the industry works. These things are foolish strategists, yes? And then what you see is that these businesses exit the market. And I said it a number of times, never has a bank succeeded in this industry, never has a foreign buyer succeeded, no insurance company and certainly no asset manager, and this is not for a lack of trying. So ultimately, you need a business model that you consistently execute where you truly add value to partners, and where ultimately you're compatible with what made this business, this industry so successful. And since we started this thing on my kitchen table and my co-founder's kitchen tables, we have been one straight line in the way we executed the strategy. Actually, sorry, you also asked international.

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

Oh, yes, yes, sorry. I asked you to contrast what's going on in the U.S. versus your international markets in terms of multiples.

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

Yes, sorry, that's a very important aspect of your question. So this is where our scale and scope just gives us a unique advantage. We can constantly allocate capital to the highest opportunity, and guessing some of the international markets, the multiples are just more attractive than they are in some buckets in the U.S. And ultimately, we are investing in domestic and international fiduciary wealth managers, we're investing in ultra high-end multifamily offices targeting athletes and entertainers. We recently did an OCIO transaction and have invested in TPAs. So this diversity that we have in our model is very unique and allows us to really keep our returns on equity very, very consistent over time.

Operator

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

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

Could you please talk about the value proposition of your new joint venture, Beryllus Capital? What is the competitive landscape in this multi-family space, and how Focus can add value to this joint venture?

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

Yes, absolutely. So we are very excited about this opportunity, and quite frankly, the Hinduja is one of the most prominent ultra-high net worth families on the globe, and one of the wealthiest families in the U.K. They obviously can choose to work with just about anybody. But ultimately they chose us as their partners because they really believed that our perspective, our value-added resources, can really help them develop together, of course, under the leadership of the management team, into one of the leading true ultra ultra-high net worth multi-family offices in the world.

We made a big statement from the start with launching it basically simultaneously in London, in Geneva, in Singapore. This is where a lot of this wealth of course is concentrated. And we really are very bullish about this market. We are very bullish about very differentiated value proposition that we can bring that ultimately, when we actually believe will help -- is everything we do at Focus, we have this diverse group of 75 partner firms. And basically, we always learn from each of them. we spread the news across the partnership when appropriate, and it's really a learning network of partners. And I look at Beryllus as very much one of those very important firms that we have here in the group.

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

Got it. That's very helpful. And then quickly on the leverage. So what does it take for Focus to adjust the leverage guidance down? I mean it has been trending down in a pretty healthy M&A environment. So with the adjusted EBITDA and the cash flow you're generating, what's your thought process about changing, updating the leverage guidance?

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

Yes -- and Jim may want to jump in as well, but we really like where we are with our guidance, 3.5 to 4.5. And yes, what we accomplished, again, in the first quarter is revenues, profitability, margins, everything improved. We executed on 8 transactions, but still your leverage came down from 3.89 in Q4 to 3.79 in Q1 now. And of course, a big factor of this is we are just generating an enormous amount of free cash flow. Free cash flow available for capital allocation, which is I think a really important number to focus on, increased now by 52% versus prior -- on a trailing 12 months basis. So we just generated $219.9 million in free cash flow available for capital allocation and that helps us on the leverage side.

Having said that, our pipeline is excellent. You will see one announcement after the other. I feel very, very good about the rest of the year and not just because of Texas. Just structurally, we are in an excellent spot and we simply want to have the flexibility to keep on deploying capital as we have in the past in highly accretive transactions. If anything we have demonstrated in 2020, in the middle of the crisis, particularly also in Q2 when kind of the full headwind hit our business, reality is we could really demonstrate the quality, the recurring nature, the diversification of our cash flows to ultimately sustain this leveraged guidance very, very easily and really optimizing shareholder returns by using, of course, the very attractive capital that we have available to us.

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

I don't have anything specific really to add there, Owen. We have a great opportunity set in front of us. The RIA industry is a large growing industry. It's an industry with high fee base recurring revenue. We like what we see in the U.S. We liked the opportunities with Connectus that we recently launched. We liked the international opportunities. Obviously, we proved last year, as Rudy just mentioned, that we can operate to during periods of high volatility and maintain our leverage guidance. So it's really about being a positive and look at the opportunity head, and using our cash flow and our low cost of debt capacity on attractive opportunities while still maintaining discipline in the transactions that we do.

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

Owen, maybe just a last point because I think it's so interesting. We showed on the charts, basically, our EBITDA on an LTM basis would need to drop by $150.7 million, meaning 39%, to ever reach our 6.25 net leverage covenant. So we adjusted an excellent position and it's ultimately optimizing the returns that we generate by staying within the 3.5 to 4.5 range.

Operator

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

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

Just the first question, on some of the new products and services you guys are offering working on like the cash, credit insurance, private investments, all seem to be important areas where we're focused in differentiation, but it also has to be done well, to get updates. We just want to understand how you create the offerings, maybe how involved are the partner firms. And then any updated numbers you have on some of those earlier initiatives or how it may help in winning when you're going after a certain M&A [prime].

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

Focus from -- and I'll our start, we have always been about value added. And quite frankly, our scale, the scale that we have reached over the last number of years really ultimately enable us to create solutions that are unique in the industry and quite frankly, are very, very helpful to our partners and when we are working with prospects. The genesis is just about everything we do at Focus is always the same. It starts with one of our 70 plus partners saying, "You know what, I have this need for some clients, how can you, Focus, help?"

And very often, it's just not one partner raising their hand, but it's a number of partners. And that's when we then help these partner firm solve their initial problem, that's the starting point. And then we look, is this something we can scale across the group because it's really a pattern of service needs that these clients or partners need. And what -- so never get these thing built in a laboratory, but they are always real-life client cases, client opportunities that we are helping our part to serve.

And through our scale, we are the largest client or the largest purchaser of just about any service that you could find in the RIA industry. This gives us insights. This gives us bargaining power. This gives us access that, quite frankly, nobody else in this space has. And this is what we didn't deploy for our clients.

The first area that we have worked on and announced publicly was cash and credit. We are very, very pleased with the cash and credit program. It was over $1 billion just last year. We see tremendous momentum and it's very high-tech kind of lending, like very recently we help the financing of royalty rights in the artists [industry and entertainment] segment. He had very, very attractive terms and a very complex, but very high value transaction. We have done international lending. We have done aircraft and yachts and other things. So there's a lot of kind of high-tech capabilities that we are bringing to the party. With a typical RIA in this industry maybe will do 1 or 2 of them a year. We do way more than that. And that gives us the insights into the purchasing power.

The areas where we -- and I addressed them in my speech, the areas where we put a lot of energy right now is trust solutions. This is a major need in this industry. Quite frankly, many trust solutions are overpriced today. Again, our purchasing power comes in. We have partners with South Dakota, Delaware, Tennessee, and the national license. Alternative investments, very, very important because of the distribution of returns. You need to have access to the best managers through the expertise of our partners like SCS, but also through just the scale of our organization, we have this access. We have better than probably anybody else. Valuation services, very important for estate planning and other purposes and insurance.

These are all areas we're investing in and we don't look at these as profit centers, Mike, but we look at them ultimately as value added services to our partners, which therefore makes their proposition even more competitive in the market and therefore increase their growth through getting more clients and retaining their clients. In fact, cash lending, if there's one thing I've learned over this last 1.5 years is you're so often in attractive lending solution leads to a tremendous increase of assets here these clients hold with our partners. So it's really a win-win for the client, a win for our partners, and then of course a win for Focus.

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

All right. Great. That's helpful. And then maybe just a quick follow-up, Jim. The EBITDA margin is coming in better and has improved by a good amount, not just over the last 12 months with COVID, but over the past few years. I'm curious on the outlook and has anything changed or the mix shift is that makes maybe the margin opportunity more attractive versus a few years ago.

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

Yes. Obviously, we're happy with the growth of the adjusted EBITDA margin, just reported 25.6% this quarter. And on the Q1 last year, it was 23.1%. So 2.5 percentage points year-over-year, we're obviously very happy about that, that growth. We provided details in the earnings supplement in Q2. We have a few new partners that are going to contribute about $7 million in revenue, $2.6 million of estimated adjusted EBITDA. So those firms we think will contribute around 37% adjusted margin. So that kind of goes into our math.

We're guiding towards full year of at least 25% adjusted EBITDA margin. Expect later this year, travel, business, development activities will start to pick up. Structurally, our Connectus transactions have higher margins. It's still early days, so they're not contributing materially to any change, but over time that will impact the margins. And as we said on the last earnings call at the end of this year, when we have a little more visibility on all of these things, we'll probably reevaluate the long-term adjusted EBITDA margin at that time. But overall, we're pretty happy with the year-over-year growth of the 2.5 percentage points as I just mentioned.

Operator

Your next question comes from line of Kyle Voigt with KBW.

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

If we go back to your IPO, which is almost 3 years ago now, I think you mentioned at that time, there were about 500 RIA firms with over $1 billion in AUM that could potentially be viewed as acquisition targets or potential for them to join the Focus partnership as partner firms. But since then, there's been a significant number of large deals announced by you and others in the sectors. Just wondering if you can give us an update on how that pool of potential RIAs or potential partner firms looks today versus that number that was around 500, I believe, just a few years ago. And Rudy, anything else you could share on the number of kind of very large RIAs, maybe over $5 billion that you see as potential targets. I'm just trying to get a sense for how your kind of addressable market for M&A has changed over time.

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

Yes. Absolutely, Kyle. One of the fascinating things about this industry is basically, this is an ever increasing pool of opportunity. Reality is -- actually the number is about 1,000 firms in the industry based on [several] and other research groups, over $1 billion. There's a total of about 17,000 RIAs.

And so this number is staying -- constantly it's actually really increasing. Why? Yes, there is some level of consolidation, but reality is these industry's under consolidating depending on which research group you believe, maybe the 150 or so deals in this industry, Kyle, there should be probably 250 to 300 deals a year. So every year the backlog of deals is really building in this industry. Why?

My most favorite statistic, the 50,000 advisors out there, this is both brokers and RIAs, they basically are managing over $3 trillion and are 65 years and older. So reality is there's a $3 trillion market -- and these are not Focus numbers. These are industry research numbers that basically will transition, not in 10 years, in the next 5 years or 7 years, one way or the other. And we have and we will continue to get more than just our fair share of this.

What's driving the consistent high number and growing number of a billion-dollar plus firms. One is just firms grow. Two is basically, more and more brokers, or even selectively bankers, are basically moving from the wirehouses into banks to the RIA space. So there's a constant supply of large firms who are basically entering or growing into this target zone.

Now because of our business model, yes, you're correct, for holding company deals direct, most firms in the [$1 billion] plus range. Prairie Capital, most recent, large deal announced was a $5 billion deal. Very, very large firm that joined us. But the real opportunity here is just getting this constant share of deals that we do at attractive multiples because of the very powerful value proposition that we have.

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

That's very helpful. Now I can just ask a clarification question regarding the insurance offering or some of the other value added services that you're just rolling out. I just wanted to clarify, is Focus sharing in those economics at all? Or should we really think about that as just being part of the value proposition to advisors to make those advisors stickier and to enhance your offering to them?

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

Yes. Just about everything we do, as I said before, is really ultimately how we can enhance the value proposition of our partners and how we can help them better serve their clients, which then of course has positive impact on their revenues and their profitability and we get plus/minus 50%. It's a very simple model. Occasionally, we'll probably have revenue models where we can recover some of the expense on the holding company, but that's really secondary. What is first and foremost, and quite frankly, Kyle, it's really becoming a core of our value proposition. Prospects join us because they see just this awesome capabilities that only players of our scale have and really want to be part of offering these to their clients.

Operator

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

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

So just maybe a little more on the value added services. And when I take us back a couple of years and kind of think about the growth algorithm for the firm and really the growth algorithm for your partner firms, same-store sales has not been the biggest driver, right? The majority of the growth, I believe, has been market, but also obviously deals that you guys help them both fund and access.

So I guess my question is, do you see enough evidence that these value added services could accelerate the actual same-store sales of your partner firms? Any evidence of that you could share with us and kind of what's the kind of organic same-store sale has been over the last couple of years and where you guys think it could ultimately go based on everything you've done in the last couple of years? Cause it's been quite a lot.

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

Yes. And obviously, Alex, we wouldn't be doing these things if we didn't fully believe in the power of these services. And as I said before, they never just get created in some laboratory outside of the real world, but they always ultimately meet demands that our partner firms have. And yes, we very much can see the impact of these value added programs.

And there are 2 type of programs, Alex, that we have. There's Focus business solutions. That's basically all the things where we help with new marketing and new operations and new technology and talent management and compliance. And this, of course, also includes when we help with mergers and acquisitions. And there's no question that there's just tremendous impact here that these have. And when you look at the organic growth rates of our partner firms that we disclose every quarter, these are quite frankly, very, very powerful numbers.

Focus line Solutions, we see the impact of cash and credit because we have done it long enough. And as I said before, it's well over $1 billion so far. And again, it's not the margin we make on this because most of this is simply pass-through, meaning really, it's the bank's balance sheet and we use our scale to get excellent solutions for the clients. But what we do here is -- oh, yes, we just did -- actually, yesterday, I learned about a $40 million -- sorry, a $20 million credit that we arranged for a very important client in the South, small, medium-sized business. And once we arranged it, we increased $10 million of this liquidity, ultimately came to us for investments.

So we are tracking these things very carefully. We see them as really a core part of our value proposition, and we think it's a major differentiator in the market. Trust portfolio optimization, valuation services, insurance, multifamily office services, they're -- the jury's still out. It's too early. We are just announcing a number of things. We are just launching these. But yes, Alex, for sure, we wouldn't invest these resources in -- that we have in this space if we weren't convinced that it has a major impact on our clients but also from a prospecting perspective.

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

Got it. Okay. Makes sense. I guess we'll stay tuned for more details there. My second question, just around the earnouts. So Jim, I was wondering if you could help with the amount of the earnouts that are vesting kind of over the next 12 months. I think the total fair value liability is around $190 million. I think you gave us the $55 million in the second quarter. Just curious kind of what that looks like over the next 12 months as we think about kind of the cash flow capacity for deals sort of net of the earnout payout.

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

Yes. So Alex, the guidance that we provide is quarterly. We -- this quarter Q1, we paid $10 million. That was in line with the guidance that we had provided. Our guidance this point for Q2 is the $55 million. And you're right, the estimated earnout under GAAP at March 31 is $192 million. It's harder for me to estimate 12 months or longer-term periods based on the change. So the guidance that we provide is the next quarter, which is the $55 million.

And then obviously, the cash flow has gone up quite a bit. The LTM cash flow available for capital allocation was $219 million, and up 51%, and that's becoming more and more a piece of the proceeds, if you will, that we're using for our M&A activities in conjunction with the credit capacity that we have as well that are driving the business towards 20% top line revenue growth this year.

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

Yes. And -- go ahead.

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

Actually, Alex, maybe just one more thought. The -- whenever I sign the checks or I approve the wires for some of these large earn-out payments, I always do it with a big smile because it really ultimately proves here that we have done great transactions. And it's just a reflection of the quality of our partner firm portfolio.

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

Yes. For sure. High class problem. Just a clarification of the $190 million, is it all cash? Or is there stock as well? I believe that there's sometimes equity, I just wasn't sure whether the fair value of the liability is inclusive of the stock or is it cash.

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

Yes. We predominantly pay cash, but there can be equity elements as well.

Operator

Your next question comes from the line of Michael Young with Truist Securities.

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

I wanted to follow up just on the sort of COVID-impacted revenue from the entertainment businesses, et cetera. Any kind of thought as we reopen here on how those should trend? And should they move back to higher levels than where they've been before? Or should we expect them to be a little bit stunted for a period?

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

Yes. And Jim, you may want to -- to, Jim, you want to jump in?

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

Sure, sure. So obviously, if you look at our noncorrelated revenues over the last year or 2, it sort of peaked around $100 million. We just reported $87.8 million. Obviously, we anticipate activities in the entertainment sector to recover later this year and obviously, into 2022 as the vaccinations are deployed countrywide. We don't provide specific guidance on this. It's sort of embedded into our overall guidance, of which, at this point is for Q2, $415 million of revenue and obviously driving the business full year towards 20% plus revenue growth year-over-year. But obviously, we remain positive. A lot of pent-up demand on live event activities. And while some of it was a headwind in the past year, we're hoping for some tailwinds in the future.

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

Yes. It's interesting when I talk to our partners in this segment, the -- so clearly, this pendulum is going the other way now. It has just started. But in call most recently, a partner mentioned that it seems to be now a shortage of venues that is -- by the later in the year, where basically people are just booking and booking. And this, of course, can have a very positive impact. But one step at a time. But clearly, the world is looking much better now than only 2 quarters ago.

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

Great. And I guess maybe zooming out to kind of the longer-term targets, you provided that you guys are going to update in the EBITDA outlook later this year. But more just curious kind of big picture, where you're maybe ahead of plan there or behind. You guys have done a lot of things over the last year through COVID and the pandemic that seems like you might be a little bit ahead or on the front foot, but I just wanted to get kind of a high-level view now that we're kind of reopening and back to normal, et cetera.

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

Yes. Michael, the -- we have been very clear throughout last year that there was, of course, some impact, but ultimately, de minimis impact to our business momentum through COVID that we didn't see a need to change the targets, I think $3.5 billion in revenues, $840 million in EBITDA with margin guidance still to be determined or updated. We quite frankly feel these are very powerful and very good targets. And I don't think we are ahead. I don't think we are below. We are just chugging along to really fundamentally doubling the size of this business and more by 2025, which I think is a very good aspiration.

Operator

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

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

Okay. Rudy, I think last year, either maybe third quarter or so, you kind of cited some industry stats around market dislocations driving a pickup of assets in motion, I suppose, broker recruitment, that type of activity. Can you perhaps help us frame where we are in that process? Are we largely through it post the pandemic? Or is there still a fairly significant runway of advisers looking to partner with platforms such as yourself?

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

Yes. You know what, Gerry, I think it's just starting. Of course, there are no industry statistics out for 2020 yet. Actually, there's some now. But what we are seeing clearly is an acceleration of the market share gain by the RIA industry.

As you know, if you look over a long cycle, basically RIAs, RIA part of the industry growth is about 10%, while the traditional wirehouses grow about 3.2%, which -- so we're going triple the incumbent players. And you're exactly right. It was in Q2 earnings, where we showed the empirics where in the year of the crisis, the RIA industry simply does better than all the other industries. But of course, it gets impacted by the crisis. But then in year 1 after the crisis, the RIA industry grows by 17% here versus the typical 10%, while the wirehouses only grow at 6%. And then in year 2, our industry still grows at 16% while the wirehouses here, then you get to 12% and then it basically stabilizes again to the 10% versus 3% ratio.

So we think it's just beginning. And we think that, yes, whenever this crisis is truly over, and yes, it's almost over, but I think there's more to go and more surprises to come. But reality is the next couple of years are going to be just terrific from -- for our industry and for Focus. And you've seen

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the guidance in Q2. Our Q2 guidance speaks to an organic growth rate of 23% to 26%, which, quite frankly, these are numbers that speak for themselves.

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

That's helpful. And apologies if I missed it, I had to join the call a little late this morning, but can we get a little bit of an update on kind of the traction that the Connectus platform has been seeing? I know it's still relatively early, but is that focused on any specific regions beyond Australia? Or how has that sort of been evolving if you can?

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

Yes, absolutely. So we are very bullish on Connectus, and we are very bullish in international, but also in the U.S. So we just announced it. And at this point, we -- Connectus did a total of 6 deals already. 4 of these deals are in Australia. Quite frankly, it's much of the thought process around Connectus, really came, my Co-Founder, Rajini and my colleague Molly, just from experiences that we have in the Australian market where this model really resonates just tremendously. So 4 deals already in Australia, 1 in the U.K. and then, of course, 1 in the U.S. at this point.

So we expect that this is absolutely going to continue to expand. We expect that this will -- Connectus will be in, not too long a time, one of Focus' largest partner firms, no question. And it was this kind of hybrid model that we developed that stands between on the one hand, the direct holding company deals, which is, of course, the hallmark of what Focus does, and the mergers where we deploy our resources to help our partner firms grow through smaller transactions typically. Connectus is square in the middle between these 2. And we think it's just a tremendous opportunity in just about all the markets that we are operating in.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session. I'll now turn the call back over to Rudy for closing remarks. Rudy?

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

Yes. Thank you. And in closing, I would very much like to thank our partner firms for their outstanding financial performance and continued excellence in serving their clients in another quarter marked by volatile macro backdrop. I'd also like to thank our holding company employees for their hard work in serving our partners and continuing to build the business during challenging times. I want to reiterate the value of our scale and the diversity of our partner portfolio and business models and the enduring competitive advantages these attributes create for us.

We delivered another strong quarter of growth, achieved a significant milestone in delivering more than $100 million in adjusted EBITDA, generated approximately $220 million in LTM cash flow available for capital allocation, and we sustained our M&A momentum. We made solid progress on expanding our international footprint, further diversifying our partnership and increasing our presence in the ultra-high net worth market. We continue to enhance our partners' ability to deliver integrated, highly personalized services to their clients through the additional value-added services we are now able to provide.

Our scale and profitability support a level of innovation and execution on behalf of our partnership that wouldn't have been achievable just 3 years ago. We are extremely well positioned as the world moves beyond the pandemic and the strong fundamentals of our business will enable us to continue driving superior growth and performance. Thank you all for your interest.

Operator

Ladies and gentlemen, this concludes today's conference. You may disconnect your lines at this time. Thank you all for your participation.