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PRESENTATION

Operator

Good morning. I would like to welcome everyone to Focus Financial Partners 2021 Second 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. 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 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 thanks for joining us today. Our second quarter results were strong by any measure, and we are excited about the growth in our existing partner portfolio as well as the continued strength of our financial performance over the past year. We generated second quarter revenues of \$425.4 million, adjusted net income, excluding tax adjustments per share of \$0.84 and tax adjustments per share of \$0.14. Our revenues exceeded the high end of our expectations due to an exceptionally strong year-over-year organic growth rate of 28.8%. And our last 12 months cash flow available for capital allocation grew 38.2% to \$266 million, reflecting another quarter of robust year-over-year growth.

However, the real story of the second quarter was the acceleration of our M&A momentum. In Q2, we closed 5 transactions. Q3 to date, we have closed another 7 transactions and have 3 transactions announced in pending closing. This brings our year-to-date total to 17, including 6 new partner firms and 11 mergers on behalf of our partners, with 4 of those for Connectus. Connectus is also having an excellent year and continues

to expand its international footprint, most recently into Canada with the signing of the Gavin transaction in Toronto. Our partner group would be extremely difficult to replicate, and we continue to add outstanding new firms, each an industry leader with excellent wealth management advisers and deep client relationships. Each addition, it's complementary capabilities in terms of geographic reach, expertise and clientele while adding important sources of diversification to our revenues and cash flow.

Our pipeline is at record levels and continues to build. In anticipation of this, on July 1, we closed on \$800 million of additional term on debt capital which, when combined with our unfunded revolver capacity, cash on hand and the cash flows we generate gives us over \$1.8 billion in firepower. Over the last 4 fiscal years, we generally deployed between \$300 million and \$625 million annually in business acquisition capital and completed an average of approximately 27 transactions per year, which about -- with about 1/3 of these being new partner firms and 2/3 being mergers on behalf of our partners.

This year, we anticipate deploying capital in excess of prior years with strong deal momentum and with attractive multiples and growth profiles. The strong secular tailwinds drive growth and consolidation in the wealth management industry haven't changed irrespective of the short-term dislocations such as COVID or the potential change to the capital gains tax rate. The fiduciary model increasingly resonates as the broader shift to fee-based services and the demand for greater transparency continues. This is especially true among ultra-high net worth and high net worth clients who are sophisticated consumers and value having an adviser who can provide highly personalized, integrated advice delivered via open architecture.

According to a recent Echelon Partner study, many firms are currently experiencing the highest level of organic growth and market appreciation in their history. The great migration of client asset flows into this industry will continue for years to come, creating an almost infinite runway of opportunity for us, both in the U.S. and internationally. At the same time, consolidation pressures continue to accelerate with succession planning remaining at the top of that list. One of my favorite statistics from an investment net study is that there are about 45,000 advisers aged 65 years and older, managing \$3 trillion in client assets, which will change hands over the next 10 years. The growing need for scale is another catalyst for consolidation, particularly as wealth managers and clients like demand access to top advisers, holistic services and robust technology solutions.

Against this backdrop, our core value proposition of entrepreneurship, permanent capital in value-added services resonate strongly, enabling us to attract many of the highest-performing firms in the industry. Having focused as a long-term strategic partner with the resources, intellectual expertise and scale advantages that enable our firms to become stronger businesses, grow faster and continually serve their clients better is an important but undervalued competitive distinction.

Joining a large, highly diversified partnership of leading firms is another important and differentiating competitive advantage, especially for firms planning for succession. The recent partner firms we have closed or announced, as identified on Page 14 of our earnings supplement, are an excellent example of this. Collectively, they oversee about \$12 billion underlying assets, and we expect them to add over \$60 million in annual revenues and \$23.6 million in annual acquired base earnings. They complement our partner portfolio while also strengthening our presence in several of the most important wealth markets in the U.S. Pre-Focus, these firms generated an average 2018 to 2020 revenue CAGR of 9% despite the 2020 COVID-related market headwinds.

Let me highlight 3 of them to provide you with further context. The first is Badgley Phelps, an independent wealth manager based in Seattle, with approximately \$4.3 billion in client assets. Over the last 50 years, Badgley Phelps has become one of the premier RIAs in the Pacific Northwest, and is well known for the caliber of its services and its deep longstanding client relationships. Badgley Phelps is highly differentiated by its long history, well-established business and the continuity of its multigenerational management team.

The second is ARS Wealth Advisors, an integrated wealth management firm based in St. Petersburg, Florida, with approximately \$700 million in client assets. ARS Wealth has structured its business as a family office for high net worth clients, which is an attractive and differentiating characteristic of its client service model. It will expand our footprint into Florida, an important and rapidly growing wealth market.

And the third is Rollins Financial, a fiduciary wealth manager based in Atlanta, with approximately \$1 billion in client assets. Rollins provides financial planning, tax planning and investment management services to high net worth clients, primarily across the Southeast, expanding our presence in another important wealth market. Rollins has built an enviable track record of growth and client service that positions them to capitalize on the

substantial forward growth opportunity. Every time a market leader like these firms join us, it not only strengthens our partnership and expands our footprint, but it also further validates the attractiveness of our venue proposition and our partnership, which as of August 1, stood at 76 firms globally. A core element of our M&A process is ensuring that we are adding the right firms to our partnership via sophisticated and value-add investors with a long track record.

We are also extremely disciplined so that we consistently meet to exceed our minimum levered IRR hurdle of 20%. There are 3 elements of our approach that are key to our success. The first is our extensive network of relationships. We have often said that there are about 1,000 firms in the U.S. alone that have the potential to partner firms and another 5,000 that could become mergers for our partners. It bears repeating that we know virtually all them and have built those relationships over a long period of time.

The second is our consistent acquisition structure and well-honed due diligence process. Since our first acquisition, we have always used the structure that has the interest of the entrepreneur at its core. That consistency creates a normal stability within the partnership and is complemented by a well-honed due diligence process. We have completed more than 225 transactions and the learnings from those have all contributed to the process we follow today.

The third is our ability to offer such a broad array of value-added services to our partner firms and through them to their clients. Our combined expertise, purchasing power and access is second to none and it would be very difficult to replicate what we offer. The scale of our partnership gives us unique insights that we can leverage for the benefit of all of our partner firms. We also have the profitability to continually evolve our value-add services in the areas that will help our partners firms grow the most.

Before turning the call over to Jim, I wanted to briefly discuss the secondary offering that we completed in June. KKR, one of our 2 PE sponsors monetized the remainder of their holdings in a sale of approximately 7.1 million shares at \$50.30 per share, exiting their position in Focus. Well, this was the second large PE secondary offering in as many quarters. The incremental float improves the liquidity of our stock and will enable additional institutional investors to become shareholders.

In summary, our growth trajectory continues to accelerate well beyond our expectations at the beginning of the year. We are executing on record M&A volumes and widening our leadership position within the independent wealth management sector around the world. Perhaps the most important takeaway here is that we are consistently delivering growth well in excess of what is typical for a publicly traded financial services firm, supported by outstanding execution, discipline and nimbleness.

We have made substantial progress in the growth and evolution of our business, and we look forward to sharing more details of that with you at our second Investor Day on December 9 of this year. A number of our partner firms will join us for this event as they are instrumental in helping us tell our story.

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

James Shanahan - Focus Financial Partners Inc. - CFO

Good morning, everyone, and thank you for joining us today. We generated strong Q2 results, delivering significant value to our shareholders, and we are very pleased with the growth and momentum of our business. As Rudy highlighted, our M&A activity is at record levels, which we anticipate will continue to build through the second half of this year and into 2022.

We are attracting many of the highest regarded firms in the industry who will benefit meaningfully from our scale advantages as well as access to our permanent growth capital and value-add services. Our portfolio of existing partner firms is performing well and delivered excellent organic growth.

Now let me provide the highlights of our Q2 P&L. Our revenues were \$425.4 million, up 35.8% year-over-year and slightly ahead of the top end of our estimated range of \$405 million to \$415 million as organic revenue growth across the partnership was 28.8%, exceeding the high end of our

estimate of 23% to 26%. Our Q2 adjusted EBITDA was \$107.8 million, up 44.2% year-over-year. Our adjusted EBITDA margin was 25.3% in line with our guidance.

We continue to expect there will be some uptick in our variable expenses as employees return to the office and in-person business activities increase, but we believe that our margins will expand further over time due to the scale-driven operating leverage in our business. Our adjusted net income, excluding tax adjustments per share was \$0.84, 42.4% higher year-over-year, and our tax adjustments per share was \$0.14, up 16.7% for the comparable period.

Our M&A momentum increased during Q2, and that has continued to build in Q3. We closed 2 new partner firms, Prairie Capital Management and Rollins Financial on April 1. And these 2 firms contributed a total of approximately \$7.1 million of revenues and \$3 million in adjusted EBITDA in the quarter.

Q3 to date, we have closed on 2 additional partner firms, and we have 1 signed and pending closed, which we estimate will contribute a total of \$36 million in revenue and \$13.3 million in estimated adjusted EBITDA on an annual basis. Based on the mid-quarter closings for these transactions, we estimate that they will contribute \$5.8 million in revenue and \$2 million in estimated adjusted EBITDA in Q3.

In Q2, we completed 1 merger in Australia for Connectus, our fourth transaction for Connectus since it entered the Australian market late last year. We also completed 2 mergers in the U.S. for our partner firm SCS Financial and LaFleur & Godfrey. This brings us to a total of 4 mergers completed in the first half of this year. In Q3, through August 1, we have closed 5 mergers and announced 2 additional mergers that are pending closing.

Now turning to our Q2 expenses and cash flow. Management fees were \$116.2 million or 27.3% of revenues, a slightly higher percentage relative to Q1 due to the economic relationships we have with our partner firms. Our noncash equity compensation expense was in line with our guidance of 1.5% of revenues, and we estimate this expense will be approximately 1.3% of estimated Q3 revenues. Q2 also reflected a \$34.1 million increase in noncash changes in the fair value of estimated contingent consideration, reflected 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 estimate of these liabilities as of June 30.

Our LTM cash flow available for capital allocation as of June 30 was \$266 million, 38.2% higher year-over-year, reflecting the growth of our partnership as well as the addition of 8 new partner firms and 17 mergers during this period. In Q2, we paid approximately \$300,000 of tax receivable agreement payments. We also paid cash earn-out obligations to \$65.2 million, higher than our guidance of \$55 million, primarily due to the timing of earn-outs structured for a Q2 partner firm acquisition. We anticipate that we will pay cash earnouts of approximately \$35 million in Q3 and \$60 million in aggregate for the second half of 2021 based on the acquisitions closed to date.

As a reminder, our cash flow in future period will be enhanced by our \$1.8 billion unamortized gross tax shield as of June 30. We expect the value of this tax shield will continue to grow given our highly tax-efficient acquisition structure and will also be enhanced by any increase in corporate tax rates.

Now turning to our Q3 expectations. We estimate that our Q3 revenues will be in the range of \$440 million to \$450 million. We estimate Q2 organic revenue growth rate of 24% to 27%. Our Q3 expectations also reflect the effect of our new partner firm additions. We anticipate that our Q3 adjusted EBITDA margin will be about 25%. Assuming market conditions stay constant at current levels, we continue to estimate that our full year 2021 adjusted EBITDA margin will be about 25%. We'll update our long-term adjusted EBITDA margin target of 24% at our Investor Day on December 9.

Now for a few comments on our balance sheet. We ended Q2 with approximately \$1.6 billion of debt outstanding and net leverage ratio of 3.54x at the low end of our 3.5 to 4.5 net leverage ratio parameters. Assuming markets stay constant at current levels and with the acquisitions we expect to close in Q3, we anticipate that our Q3 net leverage ratio will be in the range of 3.5 to 3.75x as our rapidly increase in cash flow available for capital allocation continues to reduce the amount of debt capital needed to fund our M&A activity. We remain committed to our net leverage ratio range of 3.5 to 4.5x, which we believe is the most appropriate range given the highly acquisitive nature of our business.

As Rudy mentioned, based on our accelerated M&A, we closed on a new \$800 million tranche on our term loan on July 1, which consisted of \$650 million drawn at closing and \$150 million with a 6-month delay draw future. This tranche has a 7-year maturity and closed with an OID of 99.25. The interest rate is LIBOR plus 250 basis points, with LIBOR subject to a 50 basis point floor. This will add approximately \$5.6 million in estimated incremental interest expense in Q3. We expect to deploy this additional debt capital over the next few quarters.

In summary, we executed well in Q2 and the growth trajectory of our business remains very strong. Our acquisition pipeline continues to grow as joining the Focus partnership remains exceptionally attractive to wealth managers looking at their next steps. Becoming part of an international network of over 75 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 remains unique in our industry. No other company in this space, public or private, 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. Together, these attributes create superior long-term value for our shareholders.

Before turning the call to Q&A, I wanted to introduce Charlie Arestia, who recently joined our IR and Corporate Communications team, working closely with Tina Madon. Charlie joined us from the Specialty Finance Equity Research team at JPMorgan. Please feel free to reach out to Charlie in addition to Tina, if you have any questions about Focus.

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

Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Owen Lau with Oppenheimer & Company.

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

So given the pace of your acquisitions, could you please give us an update on the competitive dynamic? What was the range of multiple you were paying over the past few months? And how do you see the competitive reactions from other players?

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

Owen, yes, absolutely. The -- so clearly, we are on track to have one of our most successful M&A years in Focus' history. And that's both in terms of kind of the diversity of the deals we are doing, the quality of the deals and certainly the scale. And Owen, when you look at many of the recent deal announcements to just speak to the power of our value proposition. And quite frankly, we have seen kind of aggressive multiples almost throughout the history of this industry, but certainly a number of more recent transactions. And Owen, discipline is our middle name. We remain very disciplined. And Focus is so much more than just this upfront multiple that is being paid. And of course, we are competitive for we wouldn't be doing more deals than just about anybody else in this space. But firms join us because, first and foremost, they want to protect their clients from any selling pressure and from -- and really providing continuity of advice. Second is they want to protect their culture. They want to protect their staff who made them successful, because fundamentally, these businesses stay as independent entities. And very important, they just don't want to be on the block again, in the private equity transaction that may pay them a little bit more. But then at the end, they are back on the block again. and ultimately will get sold to just somebody else. So it's the power of this value proposition here that ultimately is Focus' kind of role in this industry and allows us to protect our economics and really keep on attracting some of the best firms, not just in the U.S., but as you know, increasingly on a global scale.

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

Got it. That's very helpful. My follow-up is, there are lots of conversation and discussion about compensation, compensation pressure. Could you please talk about maybe the trend of the compensation expense in this industry? Do you anticipate your competitors are going to pay up for new hires? What are you seeing in this industry right now?

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

Yes. I think the compensation pressure is really a broad phenomenon that goes beyond our industry right now. But keep in mind what is different about our business model is that most of the "compensation" in Focus is absolutely formulaic. Meaning it's the management fees that basically is a negotiated number in -- when we negotiate these transactions, and we disclosed this number on an ongoing basis. And quite frankly, it's purely formulaic as it pertains to broader staff expenses. Yes, there probably will be some uptick. Quite frankly, one reason by Jim and I haven't provided a new margin guidance is we really want to understand these dynamics more fully. But overall, the industry economics and our economics quite frankly, are so robust. You see our Q3 guidance that ultimately, this model is -- will be sustained for many, many years to come with fundamentally identical economic structures.

Operator

Our next question is from Kyle Voigt with KBW.

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

Maybe you can just give us some updated thoughts around how much of this elevated deal activity you think is being driven by sellers, maybe trying to get ahead of potential tax changes? I'm just trying to get a sense of -- is there an acceleration or a pull forward of deal activity that's going on into 2021, and so should we be expecting a little bit of a slower activity levels as we look out to next year?

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

Yes. Thanks, Kyle. We have 0 concern that there will be a significant -- a meaningful slowdown in activity in 2022 and beyond. And yes, there may be some incremental impact of potential tax changes that may drive a little bit of the activity. But Kyle, we are cranking on all cylinders way beyond the U.S. And of course, they are not -- there are different tax dynamics in these countries. So we see the M&A momentum continuing for years to come. Now of course, the reason is because it's structural. First and foremost, the M&A dynamics are driven by, quite frankly, the aging of the founding generation and the next generation of leaders joining this industry. And very much this is going to change 1 year from now, we all will be 1 year older no matter what. And then Kyle, we are operating -- just when you look in the U.S., the RIA industry is approaching \$7 trillion, which is about 25% of U.S. managed household wealth. Then in each of the other markets we are operating in, they are \$1 trillion to \$2 trillion market. So we are basically operating in a \$30 trillion, \$35 trillion market opportunity, with a little over \$300 billion in assets -- in client assets in aggregate, we have an unlimited opportunity ahead of us. And it comes back to the power of our value proposition that we believe will continue to be highly sustainable and getting even stronger as we scale. So no, I have no worries that M&A momentum is just short-term tax driven.

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

Great. And then my follow-up is just maybe a clarification on the EBITDA margin guidance for 3Q. I think last quarter, you guided 25.5% for 2Q and now guiding to 25% for 3Q. So just to clarify from the prepared remarks, it sounds like a lot of this is related to T&E or back-to-office expenses. Just wondering if there's anything else impacting that? Has there been any material impact to those margins to note from acquisition activity or different ownership percentages that you're acquiring of businesses? Or is this really a simply a result of kind of getting back to a more normal working environment.

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

Yes, I'll hand it over to Jim in a second. But remember, when you look at the source of change of our margins, the percent acquired is always the most important factor. And by and large, percent acquired remains within the same range as before. But this can always be a driver that overshadows kind of any other changes. Jim, do you want to comment on some of these?

James Shanahan - Focus Financial Partners Inc. - CFO

Yes. I mean I think the first thing is you think about year-over-year. So first half '21, we're at 25.5% versus 23.5%. So that's a nice growth 2 percentage points on a year-over-year basis. And as you mentioned, it's also reflective of M&A activity. The new partners that we closed in Q3, the numbers are included in the supplement. They imply a 42% margin and the guidance on the transactions in Q3 for the new partners, mid-30s in terms of EBITDA margin. So all of that sort of gets baked into our model and our guidance. And we said this year, full year about 25%, and that reflects an uptick in travel type of cost, in-person activities and certainly all the M&A activities that we're working on. And where we sit today, we think later this year at our Investor Day in December, we're going to reforecast the longer-term margins. But we're pretty happy with the results at this point on a year-over-year basis.

Operator

Our next question is from Michael Young with Truist Securities.

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

Jim, wanted to follow up maybe on just the tax portion of the equation. If we do see a higher tax rate in the U.S. Do you have any sort of sensitivity analysis around how that would impact the tax shield? And just trying to think through different parts in terms of global versus domestic, et cetera.

James Shanahan - Focus Financial Partners Inc. - CFO

Yes. I think -- well, first of all, we continue to structure our transactions in a tax-efficient manner, whether that's domestically or internationally. So that builds. You can see the the gross unamortized tax shield from quarter-to-quarter continues to build. And as of June 30, it was over \$1.8 billion. And we provide a slide on that. And I think at the \$1.8 billion, it was almost \$500 million of future tax savings, obviously, subject to taxable income and using a 27% tax rate. So if the corporate tax rate does go up, then the shield in many respects becomes more valuable there.

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

Okay. And Rudy, maybe just a question on the actual underlying partner firms. Obviously, the M&A activity is very strong. But just curious maybe what you're hearing anecdotally from the partner firms in terms of new business generation on an organic basis from them? Any impacts from sort of reopening of economies or anything like that?

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

Yes. Yes, absolutely. In fact, Michael, we just had our regional partners meeting up in the Northeast in Boston. Third regional partners meeting. And of course, I'm visiting so many of our partners on an ongoing basis. And I have to say, maybe not never, but rarely have I seen the level of positivity, the level of excitement, the level of momentum that our partner firms currently experience. And of course, it's reflected in the 28% organic growth rates that we are disclosing this quarter. And it is, quite frankly, exactly what we said in the second quarter last year. Yes. In the second quarter last year, what we showed is that during a crisis, the RIA industry gets -- weathers the storm way better than any other segment in the wealth management industry. But then even more important, after the -- at the end of this crisis, and again, it was in the supplement Q2 last year, you see a fundamental

acceleration that worse what's happening in any part of the other segments of this industry, where ultimately, the success of the fiduciary RIA model brings more assets into the RIA space of course, at the expense of the traditional wirehouses and brokers and banks. And yes, the growth rate goes -- almost doubles versus the normal growth rates here, what we have experienced. So what we predicted based on historic analysis in Q2 last year, is exactly what we are experiencing right now. And this is a multiyear effect. It is most pronounced in the first year after the crisis, but it continues in the second -- after 2 years. And then if history is any guide, you see more of a normalization where basically our industry growth, and averaging over time at 10% and the other brokers and wirehouses, they typically grow at 3% or 4%. So it's still highly differentiated. But particularly in crisis and after crisis, yes, our industry really delivers for our clients more than just about anybody else, and you see it in the growth numbers that we are demonstrating here.

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

And maybe 1 quick follow-up to that. I think the historical analysis would imply a sort of a more normal cycle. But this time, we've seen such an influx of liquidity into the system. I mean do you think this could be either stronger or longer than prior cycles?

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

Well, Michael, I wish I was that smart. But clearly, this -- you're correct. This is not just a normal cycle. We are kind of in a hyper cycle because of all the liquidity that's being pumped in the economy, which could make it even more pronounced. But I just think that the core fundamentals that our industry weathers a crisis way better than anything else, but then accelerate thereafter is going to occur again, we're experiencing as we speak. And how long and how pronounced it's going to be based on all this monetary stimulus, it could be helpful. But I don't want to overstretch my glass ball here.

Operator

Our next question is from Ryan Bailey with Goldman Sachs.

Ryan Peter Bailey - *Goldman Sachs Group, Inc., Research Division - Associate*

Maybe I'll ask a question about the M&A outlook in a little bit of a different way. So about a year ago, we talked about how post-periods of volatility seen acceleration in deal activity, but it also feels like Focus by itself hasn't hit like a level of scale and momentum that is sort of self-generating and idiosyncratic. So I was wondering two things. How much of the deal pipeline activity do you think is based on the macro versus how much of it is because of Focus' idiosyncratic momentum? And then secondly, Jim had mentioned that you expect deal activity to continue into 2022. So what will be the driver of that sustained momentum?

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

Yes, yes. It's -- of course, it's a combination of forces. And you're correct, not just we are doing well, just overall industry M&A momentum is very strong. It just happens to be that ours is even stronger. And what -- partially it's, of course, as I said in my remarks and when Owen asked the question, it was, of course, very much around justify of the value proposition. You want to being entrepreneur, you want access to tangible, real value-added services that are tried and proven. And you want to have permanent capital so you're not on the block again. Quite frankly, Focus is the only game in town. We are the only ones who can make these 3 claims credible -- credibly. And we can make them not just in the States but also on -- in these international markets that are starting to be a more meaningful contributor to our growth.

So yes, what's also helpful right now is that we all can travel again. We are out with so many prospects. I do expect that this is going to be our success -- most successful -- our most successful M&A years in our history. We are going to deploy hundreds of more millions of dollars of capital. We have in \$1.8 billion war chest that we will deploy over time. And of course, this is funded at very, very attractive interest rates. So our cost of capital is probably the lowest we ever had. So we are in an extremely strong position. And every time a new partner firm joins us, it quite frankly

leads to introduction to the next number of partner firms. Our quality and the kind of the success of our existing partner group, which you've seen in the numbers that you're looking at here, of course, bodes very well for future transactions.

Ryan Peter Bailey - Goldman Sachs Group, Inc., Research Division - Associate

Got it. And Rudy, if we could come back to that favorite statistic of yours about the aging adviser base. Have you seen that dynamic increase in the conversations with new partner firms over the last several years, the importance of transitioning ownership? Or is it kind of idiosyncratic each firm?

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

No. I mean, yes, every deal is different, of course. It's -- we are in the ultimate bespoke business here. But what's interesting, Ryan, is the -- we actually believe that this industry is under consolidating. Depending which consulting group you kind of believe, this industry does close to 200 deals a year. We believe, based on the core demographics, this industry should be doing [2 2], maybe another 200 to 400 deals more a year. You could justify an industry deal momentum of 300, 400 deals a year or more simply when you look at the demographics of this industry. So what it basically means is there is a backlog of opportunity that's building up. And we are starting to see this more and more, which by the way is another reason why we can be so disciplined from a multiple and capital deployment perspective. So the industry is under consolidating. And whenever the kind of this wave of consolidation comes through, we are simply better positioned than anybody else to take advantage of it. And of course, there was a big reason why Jim and I got more debt capacity so we can built our war chest to the \$1.8 billion I mentioned. So net-net is, basically, we have 76 platforms in the U.S. and beyond. Many of them, at least 2/3 of them are interested or active in the M&A game. We are, of course, continuing to the holding company. And I look kind of very optimistic into the future from an M&A perspective.

Operator

We have reached the end of our 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

Thank you. In closing, I would like to thank our partner firms for their strong and consistent financial performance and continued excellence in serving their clients. In our travels, visiting with many of them, we hear nothing but excitement for what they do for their clients and their outlook for the rest of the year and beyond.

I would also like to thank our employees who continue to demonstrate incredible creativity, dedication and intensity to support our partners and expand our business worldwide. Our momentum is excellent and will drive strong, sustained growth for many years to come. We will remain focused on managing our business well and executing with ongoing discipline against the substantial opportunity we have globally.

I'm incredibly excited about the inflection point that our business is at and how that positions us to create meaningful incremental and sustainable value for our shareholders in the coming years.

Thank you all.

Operator

Thank you. This does conclude today's conference. You may disconnect your lines at this time, and thank you for your participation.

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