Focus Financial Partners, Inc.
Fourth Quarter 2021 Results - Earnings
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Presenters
Rudy Adolf - Founder and CEO
Rajini Kodialam
Jim Shanahan - CFO
Rusty McGranahan - General Counsel
Tina Madden - Head, IR and Corporate Communications

Q&A Participants
Craig Siegenthaler - Bank of America
Alex Blostein - Goldman Sachs
Ryan Bailey - Goldman Sachs
Owen Lau - Oppenheimer & Company
Matt Moon - KBW
Michael Young - Truist Securities
Matthew Roswell - RBC Capital Markets
Patrick O'Shaughnessy - Raymond James

Operator
Good morning. I would like to welcome everyone to the Focus Financial Partners 2021 Fourth Quarter and Full Year Earnings Call.

Joining us today are Rudy Adolf, Founder and CEO; Jim Shanahan, Chief Financial Officer; Rusty McGranahan, General Counsel; and Tina Madden, Head of Investor Relations and Corporate Communications.

At this time, all participants are in a listen only mode. A question-and-answer session will follow the formal presentation. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the call, please press "*", "0" on your telephone keypad. As a reminder, this conference is being recorded.

Mr. McGranahan, please go ahead.

Rusty McGranahan
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 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.

Rudy Adolf
Thanks, Rusty. Good morning, everyone, and welcome to our call, today. We appreciate your interest in Focus.

We had an outstanding year in 2021, and Rajini, Lenny, and I, are incredibly proud of the performance that our business delivered, reinforcing our clear leadership in the independent wealth management sector.

We generated excellent financial performance for the year, exceeding our expectations on all measures, with revenues and adjusted net income, excluding tax adjustments, reaching new heights.

We continue to attract some of the highest quality firms in the industry, and we ended 2021 with 84 partner firms in four countries.

The quality and scale of our partnership, combined with record M&A activity, and new value-added services that further enhanced our value proposition, were all integral to this outcome.

We entered 2022 with excellent momentum, extending the strong pace of activity we experienced, last year.

We are working on a substantial pipeline in the U.S., Australia, Canada, and the UK, and plan to expand into other countries.

Our December primary equity raise demonstrated our ability to access the equity markets to further support and capitalize on the attractive M&A opportunities that we expect in 2022, and beyond.

We delivered excellent results for our shareholders, growing full year revenues by 32.1%, year-over-year, to nearly $1.8 billion. Our adjusted net income, excluding tax adjustments per share, were $3.36, and tax adjustments per share were $0.56 at 36.6% and 19.1%, respectively.

These results reinforce the high growth nature of our business, which is a function of the value being created by the firms in our partnership. The results also reflect the value of our recurring revenue stream, which drives the stability and predictability of our financial performance, regardless of market conditions.

In 2021, an excess of 95% of our revenues were recurring. However, what made 2021 a standout year was the acceleration of our M&A momentum, as we capitalized on the industry consolidation opportunity in a disciplined way.

We closed a record 38 transactions, last year, including 14 partner firms and 24 mergers, inclusive of eight mergers for Connectus, which expanded this footprint in Australia, Canada, and the UK.

We continued to add outstanding new partner firms, each an industry leader with a strong business, talented advisors, and seasoned management teams, and deep, longstanding client relationships.

Each added complimentary capabilities to our partnership, including geographic reach and an array of wealth and investment management expertise, by further diversifying our revenues and cash flow.

As we discussed at our December Investor Day, our core value proposition of entrepreneurship, permanent capital, and value-added services, is unique in the market and resonates strongly, enabling us to continue attracting many of the highest performing firms in the industry.

As you heard many of our partner firms state, having Focus as a long-term strategic partner, with the resources, intellectual expertise, and scale advantages, will help them become stronger businesses, grow faster in continual service their clients better, was at the core of the decision to join us.

Every time we add a firm of the caliber of the 14 partners that joined us in 2021, it further validates the attractiveness of our value proposition and our partnership. At our Investor Day, you heard my Co-Founder, Rajini Kodialam, describe the value that is created by our programmatic approach to M&A.

Central to this process is ensuring that we are adding the right firms. This is what drives the consistently high investment returns we are generating.

Our value-added services are also an important differentiator and essential to helping our partner firms enhance their organic growth.

My Co-Founder, Lenny Chang, explained that to stay competitive, RIAs need to add services to position themselves to meet evolving client needs, which vary based on the complexity of their wealth and assets. RIAs concurrently need to upgrade their business practices, as scale has become an increasingly important differentiator.

We enable our partner firms to meet those needs through both, our business and client solutions. And we further expanded our value-add offerings, last year, in important areas such as trust, lending, insurance, and valuation solutions. Last week, we announced our partnership with CAIS, to provide a customized alternative investment platform to all of our partner firms.

This platform will allow our partners to, seamlessly, access a range of alternative investment strategies on behalf of their clients.

The unique scale and reach of our partnership gives us insights that we can leverage to the benefit of all of our partners, and we have the profitability to continually enhance our value-added services in the areas that will help our partners the most.

We structured our Investor Day to answer the key investor questions in each of these areas, and the feedback we have gotten has been excellent. In particular, the disclosures we provided on our long-term organic growth rates, excluding mergers, were very well received.

As of September 30, 2021, for firms that have been with us for at least two years, our partnership generated a since-inception organic growth rate of 9.6%, excluding mergers, and our portfolio of U.S. RIAs, 11.2% on a weighted average basis.

Our update on the size and stability of our investment returns was also viewed very positively, with 91% of such firms generating levered IRRs in excess of 20%, compared with 86% at our 2019 Investor Day.

Most importantly, investors were impressed by the quality and depth of our partnership, as demonstrated by many partners who joined us for the panel discussions.

We have made substantial progress in the evolution of our business, with the COVID crisis reinforcing the stability and resiliency of our business model. And we increased our 2025 financial targets to reflect this.

Our growth trajectory continues to accelerate, and we are executing on record M&A volumes by widening our leadership position, within the independent wealth management sector.

Perhaps the most important takeaway is that we are, consistently, delivering 20% plus annual growth, supported by strong organic revenue growth and outstanding execution, investment discipline, and nimbleness.

I can't emphasize this point strongly enough. Although we and our partner firms expect some level of market volatility in 2022, we anticipate 20% plus annual revenue and adjusted EBITDA growth, and adjusted EBITDA margin of approximately 25.5%, this year.

Similar to 2020, the value of financial advice and longstanding client relationships provide a solid foundation for this outlook.

It also bears repeating that we are, uniquely, positioned in a multi-trillion-dollar global industry that is experiencing a transformational shift, driven by succession and the need for scale.

At our Investor Day, we highlighted that, despite the increase in merger activity in the last several years, consolidation in this industry is just beginning, representing an opportunity that will span many years, if not a decade, or more.

Given our scale, track record, and exclusive industry focus, we believe that Focus is the best positioned company in the world to capitalize on these dynamics, which we believe will result in significant value creation for our shareholders.

It is for these reasons that we updated our 2025 financial targets, including revenues of approximately $4 billion, adjusted EBITDA of $1.1 billion, and adjusted EBITDA margin of 28%, supported by a future partnership of approximately, 125 firms.

To reach these targets in about four years' time requires that we more than double the size of our revenues and adjusted EBITDA, while increasing the number of partner firms we have, by about 50%. We believe that these targets are aggressive, but achievable.

Our diverse and growing global partnership, creates enduring scale advantages, reinforcing the sustainability of our strong growth for many years to come. I'm very excited about our outlook, both near and long-term.

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

Jim Shanahan
Good morning, everyone. In Q4 and for the 2021 full year, our business performed exceptionally well. Our growth and financial performance were very strong, as our partner firms delivered excellent results.

We closed 38 transactions, a new record for our M&A activity, and continued our international expansion. We enhanced our value-add services, adding new capabilities in many important areas.

The revenue and adjusted EBITDA growth we achieved drove strong year-over-year growth in our cash flow generation, substantially increasing our flexibility to invest in value accretive opportunities, around the world.

Our tax shield continued to increase, which was also an important enabler of the growth in our cash flows. The new partner firms we acquired and the mergers we completed on behalf of our partners last year, further position our partnership for continued strong growth and performance in the future.

The quality results our business is achieving and the consistently high performance our partner firms are delivering are the catalysts for the updated 2025 financial targets we shared with you at our December Investor Day.

As Rudy noted, we also laid out the annual growth targets that support our longer-term view, which provides important near-term context.

Based on current market levels and the trajectory of our business, we believe that we will deliver full year 2022 revenue and adjusted EBITDA growth in excess of 20%, and adjusted EBITDA margin of approximately, 25.5%.

To further emphasize a point that Rudy made, it is important to remember that our business is relationship-based, with over 95% of our 2021 revenues coming from recurrent sources. This is a central element to the high growth we are consistently delivering.

Now, let me turn to the highlights of our P&L. Our Q4 revenues were $523.9 million, reflecting a year-over-year increase of 38%, and 8% above the top end of our estimated range of $475 million to $485 million.

Our Q4 year-over-year organic revenue growth rate was 26.6%, well above the top end of our guidance of 17% to 20%. This outperformance primarily reflects approximately, $20 million in performance fees associated with alternative investment funds managed by some of our partner firms, which will not repeat in Q1.

Our Q4 adjusted EBITDA was $129 million, up 42.2%, compared to the prior year period. And our adjusted EBITDA margin was 24.6%, in line with our approximate 25% outlook. The performance fees I just mentioned, contributed approximately $7 million in adjusted EBITDA.

Reflecting the strong growth and profitability of our business, our Q4 adjusted net income, excluding tax adjustments per share, was $0.94, increasing 30.6% from the prior year period. Our tax adjustments per share were $0.16, 33.3% higher, year-over-year.

On a full year basis, our revenues were approximately, $1.8 billion, 32.1% higher than the prior year, driven by our organic revenue growth rate of 24%.

Our full year adjusted EBITDA was $451.3 million, 40.3% higher than the prior year, and our adjusted EBITDA margin was 25.1%, 1.5 percentage points higher, reflecting the addition of new partner firms and operating leverage.

Full year adjusted net income, excluding tax adjustments per share, was $3.36, reflecting year-over-year growth of 36.6%, and our tax adjustments per share were $0.56, up 19.1% for the same period.

As of December 31, our gross unamortized tax shield was over $2.5 billion, the details of which are in our earnings supplement. Almost every acquisition we make increases the value of this tax shield, which grew by approximately, $800 million in the last year, alone.

We had a record year in 2021 for M&A activity, underscoring the attractiveness of our value proposition and the scale benefits we offer our partner firms, globally.

As Rudy noted, we closed on 14 new partner firms and 24 mergers, including eight mergers for Connectus, for a total of 38 transactions. In Q4, we closed on 22 transactions, including nine partner firms. The nine new partner firms contributed approximately, $16.8 million of revenue and $5.6 million of adjusted EBITDA, with adjusted EBITDA margin of 33.4% in Q4, 2021.

On a full quarter basis, these firms are estimated to contribute $37 million, and $12.4 million in revenue and adjusted EBITDA, respectively.

In December, in connection with two partner firm acquisitions, we issued approximately 440,000 shares as part of the consideration paid. Approximately 59,000 of these were Class A shares, and the remaining 381,000 were LLC units, with an equivalent amount of Class B shares.

As we have highlighted on prior walls, for attractive transactions, we have the unique ability to use our public shares, our LLC equity capital as part of our acquisition consideration. These share issuances, as well as our December equity offering, will increase our Q1 weighted average adjusted shares outstanding by approximately, 3 million shares.

As Rudy highlighted and we have discussed at our Investor Day, our M&A momentum heading into 2022 is very strong. Industry M&A activity continues to increase, and the opportunity set, internationally, is also growing.

While our M&A close into Q1 will be lower, given the substantial number of deals we completed in late Q4, our pipeline for 2022 is substantial, and we anticipate that it'll expand further, particularly, as the number of our partner firms that use mergers to accelerate their growth increases.

Connectus also has a robust pipeline and will expand its global footprint in 2022.

In anticipation of growing levels of M&A activity, we raised $161.9 million through our primary equity issuance in December, net of offering expenses and a synthetic secondary. This capital will provide us with additional working capital flexibility to efficiently capture M&A opportunities, globally.

Now, for a few comments on our Q4 expenses and cashflow. Management fees were $146 million, or 27.9% of our Q4 revenue, in line with our prior quarter.

As a reminder, management fees are our second largest operating expense because they are tied to the profitability of our partner firms and, therefore, are highly variable, they limit the effect of revenue volatility or increases in operating expenses on our adjusted EBITDA.

Our non-cash equity compensation expense was 1.3% of our Q4 revenues, in line with our expectation, and we expect this expense will be approximately, 1.2% of estimated Q1 revenues.

As of December 31, our LTM cash flow available for capital allocation was $319.9 million, a year-over-year increase of 59.6%, reflecting the strong sustained growth and financial performance of our partnership, as well as the addition of 14 partner firms and 24 mergers during the Q4 LTM period.

We paid cash earnout obligations of $27.5 million, which was within our Q4 estimate. And in Q1, we estimate that we will pay cash earnouts of approximately, $35 million.

Now, let me turn to our Q1 P&L expectations. We estimate that our Q1 revenues will be in the range of $510 million to $520 million. We anticipate that our organic revenue growth rate will be in the range of 16% to 19%.

We estimate that our Q1 adjusted EBITDA margin will be approximately, 25%. Our outlook for both revenue and our organic revenue growth rate, exclude the approximate $20 million in year-end performance fee revenues for Q4, which will not recur in Q1.

Additionally, due to the seasonal impact of our non-correlated revenues, we estimate revenues will be lower by approximately, $10 million in Q1, relative to Q4.

With the recent backdrop of unsettled equity market conditions and the heightened volatility, it is important to note that the diversity of our revenues, with approximately 23% of our Q4 revenues not correlated to the financial markets, limits the effects of market volatility on our revenue stream.

Additionally, our partner firms' client portfolios are actively managed and allocated across investment classes, which helps limit their exposure to equity market turbulence. These characteristics, together with the highly variable nature of our expenses and our earning preference, limit downside risk to our revenues and profitability.

The most recent example of this dynamic was our financial performance in 2020 at the height of the COVID uncertainty.

Now, for a few comments on our balance sheet. We entered Q4 with approximately, $2.4 billion of debt outstanding, inclusive of the $150 million we tapped in December, under the delay draw feature of our $800 million term loan.

We ended the year with a net leverage ratio of 3.85 times, lower than anticipated, due to the incremental adjusted EBITDA we generated in Q4 and our equity raise. Assuming that markets stay constant at current levels, we anticipate that our Q1 net leverage ratio will be between 3.75 times and four times.

We remain committed to our net leverage ratio range of 3.5 times to 4.5 times, which we believe is the most appropriate range, given the highly acquisitive nature of our business.

Our borrowing costs remained low in 2021, as we've been a beneficiary of the low interest rate environment. While we expect that our interest expense will increase this year, as the Fed begins raising rates, $850 million, or approximately 35% of our borrowings are swapped to a fixed rate of approximately 2.6%, inclusive of the 200-basis point spread.

Additionally, upon that hedge, $796.4 million of our borrowings have incurred the carry costs of a 50-basis point LIBOR floor.

In 2021, we closed acquisitions with consideration in excess of $1 billion, significantly higher than our annual deployment in the past years.

As of year-end, we had over $900 million of firepower between cash on hand and our $650 million undrawn revolver, in anticipation of another exceptionally strong year for M&A activity, globally.

As always, we are stringent about only pursuing acquisitions that meet our return criteria and are a good fit for our partnership. As you have heard through the partner panel discussions in our December Investor Day, we acquire entrepreneurial value-creating firms with substantial growth potential.

These are the firms that are best positioned to benefit from our scale advantages, value-add resources, and permanent growth capital.

In closing, we delivered another strong quarter in Q4 and an excellent year in 2021. These results reflect not only our ability to capitalize on the large and growing market opportunity, but also our consistent financial discipline, as our business has grown.

Our partner firms delivered another year of exceptional financial performance, last year. Our value proposition resonated strongly, supported by a well-designed portfolio of business and client solutions. We continue to be careful stewards of our capital, investing in firms that are leaders with attractive growth profiles.

These are hallmarks of the way in which we manage and grow our business, which we believe will generate substantial value for our shareholders in the years to come.

We believe that our growth trajectory is one of the most compelling in the financial service sector, reinforced by our new 2025 growth targets, approximately, $4 billion in revenue, $1.1 billion in adjusted EBITDA, and a 28% adjusted EBITDA margin.

We are optimistic about our strategy for growth and our financial outlook, and we believe that we are, uniquely, positioned to capitalize on the secular dynamics shaping our industry.

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

Operator
Thank you. At this time, we'll be conducting a question-and-answer session. If you'd like to ask a question, please press "*", "1" on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press "*", "2" if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys.

Our first question comes from the line of Craig Siegenthaler with Bank of America. Please proceed with your question.

Craig Siegenthaler
Hey, good morning, Rudy, Jim. Hope you're both doing well.

Rudy Adolf
Hi, Craig.

Craig Siegenthaler

So, we were interested in the CAIS partnership announcement, last week. And I also remember from Tony Abbiati's presentation from the Investor Day, that his partner firm, SCS, also provides alts to some of your affiliates.

So, is SCS going to work with CAIS going forward, or is CAIS going to be sort of the dominant provider of alts more from the center of Focus? Like how is that going to work?

Rudy Adolf
Yes. Hi Craig. And by the way, excellent question because we--my co-founder, Rajini, on the phone, and she'll add to what I'm saying. But Craig, obviously alternatives are an increasingly important element of wealth management for high net worth and ultra-high net worth clients.

And we have quite a number of partner firms that, quite frankly, are excellent in managing complex alternative strategies

So, what we did with CAIS was basically create a proprietary platform, where basically all of our managers, including SCS, they are very sophisticated, probably one of the largest alternative programs in this industry, but also other partner firms, whether it's some core, whether it's Kovitz or other partners, have the ability to add their highly sophisticated strategies to this platform.

And then, solely, at the choice of our partner firms, our other partner firms, they can basically tap into these capabilities if and when they see a good fit and, quite frankly, when there's capacity in these strategies. Rajini, you want to add something?

Rajini Kodialam
Thanks, Rudy. So, Craig, for us, CAIS is a fintech platform that's doing three things. First of all, it's curated. It's not just the off-the-shelf platform, completely curated for the Focus partnership.

And firms such as SCS and others, like Rudy mentioned, are on the platform, both as providers, as well as all of our other firms, can access the platform to avail of--it could be SCS. It could be another focus partner firm. It could be a third-party firm.

Within the CAIS platform that is curated for Focus, the beauty of it is, it is customized for each Focus partner firm. So, when Colony logs in, their experience to funds they're seeing, are completely different than what happens when a Bordeaux logs in, or an SCS logs in. So, that's the beauty of Focus. It's truly open architecture. Each firm decides how they want to access it, who they want to add onto it.

But the most important aspect of this is, it's also comprehensive. I'm sure you've heard it, alts are an increasing addition into the asset management mix, but one of the issues with leveraging alts in the RIA space is, it's not very efficient for the advisors. It's a cumbersome process. And that is something that we have tried to streamline, here.

We're starting with access, education, third party due diligence, connectivity to reporting providers, connectivity to custodians, and a collaborative community around the Focus partnership.

It's truly the three themes, the curated customized within each--for each partner and the comprehensive nature. This is an extension of our value-added services. And it's a beautiful straddle, on one hand focused client solutions, because it helps our partners expand their client value proposition with alts.

On the other hand, it is all about Focus business solutions because it provides tremendous advisor efficiency. So, it's a straddle.

Craig Siegenthaler
Got it. And just for my follow up, Jim, I heard your prepared comments on the expanded new deal pipeline. And to me, this sort of translates into expected more deals, more capital deployed, more earnings accretion in 2022 than we've seen kind of in recent years, even though you have had some really good recent years.

Is my interpretation of that correct? Maybe you could just refine that comment a little bit.

Jim Shanahan
Yeah, Craig. Thanks for your question. So, we--our projections for this year '22, we said we'd grow topline over 20% in terms of revenue and our adjusted EBITDA, as well.

We don't have guidance on capital deployment because, as you know, M&A is kind of hard to predict. We had a very strong Q4. At the very end of the year, we closed about 22 transactions in Q4.

Q1 will be a little lighter, but there's quite a number of LOIs and transactions that we're middle of due diligence, right now, and the future is bright here for activity in '22.

Craig Siegenthaler
Thank you, Jim.

Operator
Thank you. Our next question comes from the line of Alex Blostein with Goldman Sachs. Please proceed with your question.

Ryan Bailey

Good morning, Rudy, Jim, and Rajini. It's Ryan on for Alex. So, maybe just firstly, a philosophical question for Rudy. you're targeting 20% revenue and EBITDA growth, this year. The stock is trading in the low teens, both on NTMP and EBITDA, and it's down about 20% over just the last few months. At the same time, you're thinking about issuing stock for deals and sort of in the regular course of business.

And I was just wondering how you're thinking about the tradeoff between investing in this really strong growth pipeline that you see ahead of you and, potentially, neutralizing the effects of dilution, maybe through repurchase.

Rudy Adolf
Yeah, thanks, Ryan. Well, first and foremost, obviously, we are managing the business, not the share price. And what is probably most important is, when we deploy capital, as we have demonstrated in our Investor Day, the returns are very, very attractive.

Our weighted average levered IRR in excess of 25% is, again, very conservative math. And we are very opportunistic if we use capital in a transaction or not use capital in--I mean, equity in a transaction, quite frankly, has a lot to do with also the needs and interest of partners.

But ultimately, when you generate this level of returns and, quite frankly, we have a close to flawless track record of doing that, we continue to believe that, by far, the best deployment of capital is to just keep on growing the business and, ultimately, get us to our 2025 targets, that $4 billion in revenues, $1.1 billion in adjusted EBITDA, and the 28% margin. That's the trajectory we are on; that's the right way to deploy our capital.

And as Jim said before, there's just tremendous opportunities ahead of us.

Ryan Bailey
Got it. Okay. That makes sense. And maybe if you could give us an update on Beryllus. I think we're approaching about a year, since the initiative started.

So, I was just wondering, what's the opportunity set like in the family office space, and potentially, how are you thinking about tapping into both Europe and Asia, through that platform?

Rudy Adolf
Yeah, so of course, Beryllus is just the start of a very small joint venture. It's a little bit different than the rest of what we are doing. They have assembled a strong team, there. They're kind of in the ultra, ultra-high net worth segment, and it follows different--somewhat different dynamics. It's kind of more about deals and deal linkages.

So, no. Beryllus would not be the foundation of our, if you want, entry into Asian markets. We use our core model, and that's where the opportunity is. And quite frankly, in any of the markets that we are operating, at one point, you will see holding company transactions. You will see traditional merger transactions. And then of course, you will see Connectus transactions.

That's the essence of our business model. And that's really where the emphasis is. In the greater scheme of things here, Beryllus is obviously is very, very small still, at this point.

Ryan Bailey
Okay. Thank you.

Operator
Thank you. Our next question comes from the line of Owen Lau with Oppenheimer & Company. Please proceed with your question.

Owen Lau
Good morning and thank you for taking my questions. Could you please give us an update on international expansion? How should we think about contribution and acquisitions, outside of the United States in 2022? Thank you.

Rudy Adolf
Yeah, hi, Owen, and thanks for the question. So, I stated at the Investor Day, today only 5.8%, that's the number, as of Q4, of our revenues are in international. Still run rate, it's now over $100 million. And we kind of want to get it to 20%, 25% over time, where we will then get the real benefits of the diversification.

I'm actually doing this call from Europe, right now. And it's just there are a number of very attractive markets. But of course, step number one is just doing more in our existing markets, Canada and Australia and the UK, and then gradually expand into a number of additional markets.

What makes it so attractive is our model and our value proposition, entrepreneurship value-added services and permanent capital, is very unique in the U.S. I don't think anybody can credibly claim a similar value proposition.

But Owen, in these international markets, it's simply unheard of. And there is consolidation, there's regulatory change. There are a whole number of dynamics where markets are moving more towards a fiduciary model, the way we would call it in the U.S.

And this always creates tremendous opportunities because, ultimately, we know more about fiduciary wealth management on our scale than just about anybody else in the world, and that's a major competitive advantage.

Owen Lau

Got it. That's helpful. And then on another update, could you please also provide a little bit more color on your value-add services, maybe in particular on cash and credit program and trust solutions? Thank you.

Rudy Adolf
Yeah--yeah, absolutely. And Jim will give you some of the more recent numbers, but it's--I guess sometimes you have to be lucky or--but reality is the feedback, the engagement that we are currently seeing from our partner firms is absolutely tremendous, starting on cash and credit.

And quite frankly, it is--which is a surprise to me, is really becoming, if you want a, a customer-client acquisition instrument. Very often, I hear about partner firms, ultimately, using a change in the balance sheet of a client and really an optimization. You are using our--these capabilities, is actually really, really powerful. And so, we are very clear.

On the trust side, basically, it's still earlier days here. We just launched it. But yesterday, I talked with multi hundreds of millions of dollar clients that, ultimately, where our trust capability was a real game changer for our part--for the particular partner firm that is going to work with them.

That is, ultimately, a true tool of just adding to the sophistication of our partners. But also, it's leveraging our unique scale. We simply have more purchasing power, excess capabilities in this area than just about anybody else in this industry. And this is, ultimately, a strength that we are using that, ultimately, can help with the growth of our partner firms.

Owen Lau
Got it. Thank you very much.

Operator
Thank you. Our next question comes from the line of Kyle Voigt with KBW. Please proceed with your question.

Matt Moon
Hi. This is Matt Moon actually on for Kyle. I just had one on the adjusted EBITDA margin here. I know you didn't change out your targets, and the trajectory remains positive overall, both year-on-year and unchanged for the longer-term story.

But I was just curious on the assumptions underlying the expense base for this year, and maybe how the impacts of inflation, overall P&E and mix of acquisition types between Connectus and the core model, and any other factors might be playing a role for this year, and anything else you want to highlight, there.

Jim Shanahan

Yeah, thanks, Matt. So, obviously, we've put out a detailed Q1 guidance. If you think about what's happened over the last two quarters, a lot of people have started to travel. The costs have started to come back; in the P&L there was a slight uptick in the SG&A cost from Q3 to Q4.

Sort of that's a run rate of the business, but we do our budgets with all of our partner firms in terms of compensation and so forth. That's embedded in our Q1 and our guidance as well. As you know, we generally buy between 40% to 60% of the economics and cash flow as a respective partner firm.

So, we've made assumptions in those ranges for 2022. And that's the output with the operating leverage of the business about targeting 25.5% this year, which is up versus about 25% for calendar year ’21, and heading towards our ultimate focus, 2025 goal of adjusted EBITDA margin of 28%.

So, we like what we see and where we are, and things like the CAIS question earlier, all those types of initiatives and value-adds that we provide our partner firms will help the margin, over time, and get us towards our long-term goal.

Rudy Adolf
Matt, maybe the second part of your question was related to inflation. And quite frankly, inflation is a very important discussion topic with our clients and, obviously, a very important consideration in the dynamic portfolio construction that our partners are using.

But if there's one thing, Matt, we have seen again and again in our industry, ultimately, kinds of uncertainty increase the need for advice. And many part of our partners have seen extraordinary growth in times like this.

And as you have seen this excellent performance that we had in 2021 and, by the way, and I'm very proud of this, those people who looked at the Q2 2020 earnings, where we basically predicted the very pattern that you are experiencing, which is basically just tremendous growth in this industry and, of course, also for us coming out of the crisis.

I recently polled a number of our largest partner firms and just asked them, how do you think about the inflation? What's going to be the impact? And quite frankly, as much, of course, it's very important from a client and asset allocation as a management perspective, but from a business perspective, there's no single firm that has any material concerns about the impact of inflation on our economics.

Matt Moon
Got it. Great. And then just as a follow up, maybe more of a clean-up question, you cited $20 million in performance fees already in the quarter to some of the alternative platforms that some of your partner firms are on.

So, it sounds as though the revenue growth guidance does not include these performance fees for 1Q and the full year. But just wondering if this is something we should expect as some sort of true-up in the fourth quarters, or is this on an ongoing basis, should, I guess, assuming and hopefully, for you guys, if the alternatives perform well. But was just curious on the mechanics here in the accounting.

Jim Shanahan
Yeah, so, Matt, we do not include performance fees and projections because generally, they're based on year-end performance, and it's impossible to estimate those type of things. Even when we were sitting here in November providing the Q4 guidance, there was still uncertainty.

So, that's why the $20 million kind of came above the top end of our guidance. But impossible for us to estimate these for ’22, and we do not include them in guidance, until they're realized.

Rudy Adolf
Yeah, but thanks to the question before. In cases, quite frankly, many of our partners are just excellent in managing these types of strategies. And of course, there's a value that they and us are getting for it. But what we really see is, particularly in these complex times, there are just a number of strategies that just do, extraordinarily well, despite what's happening out in the markets, right now.

Matt Moon
Great. Thank you.

Operator
Thank you. Our next question comes from line of Michael Young with Truist Securities. Please proceed with your question.

Michael Young
Hey, good morning. Thanks for taking the question. Wanted to start with, you guys had a really strong year in terms of partner firm acquisitions in 2021, with 14 as the strongest you guys have had.

So, as we look forward to 2022, should we expect more acquisitions kind of more into the downstream bucket. Just given Investor Day, it seemed like every partner firm that was presenting, wanted to do more downstream M&A. So, should we expect that mix to shift, this year?

Rudy Adolf
Yes, you're right. One of the big reasons why partner firms join us is our track record of supporting them in mergers. And therefore, you’re directly benefiting and being beneficiaries and drivers of industry consolidations.

So, about three quarters of our partner firms have done deals and will be doing deals, at one point. So, that is an important part of our value proposition. We are virtually agnostic from an economics perspective. We deploy capital, upstairs or downstairs.

Quite frankly, we have a preference whenever it makes sense to do mergers because it's simply, as I said, the reason partners joined us and it's a huge part of our value-added program. But of course, for many transactions, it just doesn't make sense, and we don't need to do this.

But reality is yes, last year was simply an extraordinary year from an M&A performance. We deployed more capital than ever before. But when Rajini, Lenny, and I, are looking at our current pipeline, it's just really, really strong.

And so, it's hard to predict, but I believe our M&A, this is going to be another strong, very strong M&A year that we have ahead of us.

Michael Young
Okay, that's helpful. And maybe just as a follow up, with Connectus generating more kind of M&A volume and the potential, at least for there to be more mergers by partner firms, I would assume you're getting slightly better economics or much better economics in kind of those types of deals.

So, should we expect kind of the returns on these acquisitions to be increasing and maybe moving us closer towards a point of self-capitalized growth with M&A? Any comment on that would be helpful.

Rudy Adolf
Well, as we have shown in Investor Days, our--the performance of our M&A business is just extraordinarily strong, and it's strong because we very selective and have simply a good eye, I guess, for partner firms who join us.

Then of course, we've got our value-added programs, and we are financing the growth at very attractive terms through the $320 million TTM cash flow that we are--free cash flow that we are generating, plus of course, access to the debt markets and, selectively, through the use of equity.

So, I don't--I think it would be too optimistic to think that you can get even higher returns than what we have created here. I think sustaining at these levels is absolutely terrific. That's what our objective here is. And as I said before is, our pipeline is vast. It's exciting. We are as busy as we can be and stay tuned. There are a bunch of announcements in the works in the not too far future.

Michael Young
Okay. Thanks, Rudy.

Operator
Thank you. Our next question comes from line of Matthew Roswell with RBC Capital Markets. Please proceed with your question.

Matthew Roswell
Yes. Good morning, everyone. Congratulations. I have a bit of a theoretical question. Might be a little difficult to tease out, but the organic growth has been running sort of nicely higher, over the last couple of quarters.

And I was wondering if there's sort of a permanent shift higher in organic growth, or is it being driven by M&A activity at the partner firms, or are we still seeing some of the recovery from the pandemic? Hopefully, that question makes sense.

Rudy Adolf
Yeah, no, I understand the question. It makes total sense. We are less kind of focused on what happens in individual quarters. Although of course, it is a regular disclosure that we provide. I think the 15.9% that's the average, is kind of the better number to focus on. There's always going to be some ups and downs, and yes, some of them are based on the merger side.

I think that the true piece to focus on is this new disclosure that we provided during Investor Day, where we basically showed that our U.S. RIAs, our U.S. wealth management business, which of course is the vast majority of our revenue base, generates an organic gross, excluding mergers, of 11.2%. And this is over the cycle. And these are most impressive numbers.

So, there's no M&A in this. If you then add M&A, the same-store gross of our partner firms is 15%. So, this year, we have a very, very strong portfolio of growth-oriented partners. Yes, they grow on their own, along the lines of what I just described. And then our mergers here just can add another almost 50% higher growth here from 11.2 to 15, growth through our partner firms, which is of course very, very attractive.

Jim Shanahan
Yeah. I think just to add to that, so obviously, we're coming out of a--as the base year of 2020. So, obviously, there's a lot of growth. But as Rudy sort of mentioned, the last 16 quarters has been 15.9% on average, and that sort of syncs with the guidance for Q1 of 16% to 19%.

Obviously, our firms, now we have 84 of them, they're more interested in doing accretive tuck-in acquisition. So, that will continue to contribute towards that. But we're more normalizing now towards the 16-quarter average with the guidance in Q1.

Matthew Roswell
Okay. And then I guess as a quick follow up to an earlier question, when do you decide to use equity as part of a merger? Is it sort of your choice, the partner firm’s choice?

Rudy Adolf
Yeah, so, that speaks to one of the unique features that we have in our business model. And so, for holding company deals, if we start there, it's basically very much driven by what are the needs of a prospect of ours. What are they interested in? And where are we now our balance sheet cycle? And then yeah, whenever it makes sense, we are delighted to add some equity. Of course, we like our partners to own some of our equity; that's a good thing.

And we can do this upstairs through the C-Corp (PH) stock and downstairs through the LLC, which is really, really attractive. And we will continue to do on an ad hoc basis, and it's not a formula. it's a negotiation, yeah.

The--for mergers, we actually have a third class of equity, and that is when a partner firm merges with another firm, they can use, of course, our cash, occasionally our stock, but that's very, very rare, but they can also use their stock in Manco, in the management company, which creates a very tight alignment between these new firms that join our partners and our merger.

Of course, first and foremost, this is the decision of our partners, how they want to their equity, but all of this is just a highly collaborative, not very formulaic joint initiative, whenever the holding company and the partner firm basically works on the merger.

And this nimbleness and flexibility that we have up and down this kind of classes of consideration, is a real advantage in this, I think, unique, absolutely through our business model.

Matthew Roswell
Okay. Thank you very much.

Operator
Thank you. Our next question comes from the line of Patrick O'Shaughnessy with Raymond James. Please proceed with your question.

Patrick O'Shaughnessy
Hey, good morning. And apologies to beat a dead horse a little bit here, but another question on potential use of equity. If you guys were to deploy as much or more capital towards acquisitions in 2022, as you did in 2021, would you expect that to require additional equity financing, or do you think you could manage that all through debt financing and cash flow?

Rudy Adolf
Well, we are generating a lot of cash, obviously. That's the $320 million that I mentioned, before. And Jim went through a current firepower of almost $1 billion. So, we’ve got a lot of flexibility.

And we will use equity, such as said in the prior question, when we think it makes sense and not just for financial reasons but for strategic reasons, or if it is of an important interest from our partners, or rather prospects, when they join us. So, think of it more of a strategic tool and negotiation tool, and that's really the primary driver.

As we demonstrated in Q4, it was one overnight trade and we could raise almost quite $200 million, and the market received it very well. So, it's good to have this flexibility, but if Jim and I have one job, it is being good stewards of the capital of Focus, invest our cash flows to the highest return opportunities, and be very careful and prudent in the way how we use the mix of consideration, ultimately, to optimize shareholder value.

Jim Shanahan
Yeah, obviously, Patrick, this past year, we grew topline 32% and EBITDA 40%, but the objective for 2022 guidance is 20% plus revenue growth and adjusted EBITDA. So, whenever you have accretive transactions that we're going to, disproportionately, grow well beyond that, then you have to evaluate all capital alternatives.

But as Rudy mentioned, we have access to a $650 million revolver, over $300 million of cash at year-end. And one thing I really appreciate is the growing cash flow, which was $320 million, our LTM cash available for capital allocation.

That continues to grow, especially, as we continue to structure our transactions in a tax-efficient way where our tax shield now is over $2 billion, $2.5 billion on an amortized basis.

Rudy Adolf
Actually, Patrick, I think this is kind of underappreciated by the markets, I think. So, Jim just said it. We are generating $320 million in free cash flow available for capital allocation, and we are converting now 71% of our EBITDA into this free cash flow.

And this number is up 59.6% versus prior year. This cash generative capability is just a tremendous advantage. And obviously, we'll use it in the most prudent way we can.

Patrick O'Shaughnessy
Great. Appreciate that detail. And then your continued consideration balance grew from $170 million at the end of 2020 to $350 million at the end of 2021. I appreciate the first quarter guidance that you guys already provided.

But for the entirety of the year, would you expect that the cash flow related to continued consideration is going to be, substantially, higher in 2022 than 2021, just as that balance has built?

Jim Shanahan

Well, first of all, the firms performed better, and therefore the balance increases. Obviously, we did 38 transactions this year, our highest in our history, and that comes with incremental earnout consideration, which is generally over a six-year period. So, that's not just earmarked for calendar year 2022.

Rudy Adolf
We love to pay earnouts. Earnouts ultimately mean we did a terrific transaction. We use a relatively high threshold for partners to ultimately make these earnouts. So, it's really a reflection of the health and quite frankly, the organic growth and the strengths of the organic growth of our partner firms where you see this increase in this number.

Patrick O'Shaughnessy
Great. Thank you very much.

Operator
Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Mr. Adolf for final comments.

Rudy Adolf
Yeah, thank you, all. I would like to express my deep appreciation for our partner firms for their outstanding financial performance, industry leadership, and client focus in 2021.

I'd also like to thank our holding company employees for a tremendous year in expanding our partnership and enhancing the value-added services, intellectual expertise, and other resources we are able to provide to our partners. We very much appreciate your hard work, persistence, creativity, and enthusiasm.

In closing, we demonstrated the substantial growth and earnings potential of our business, last year. I want to reiterate the importance of our unique value proposition, our scale, and the diversity of our partnership.

These are enduring competitive advantages that support our new 2025 targets of approximately, $4 billion in revenue, $1.1 billion in adjusted EBITDA, and adjusted EBITDA margin of 28%. We have entered 2022 with terrific momentum, which, when combined with the strong fundamentals of our business, we believe will enable us to continue driving superior growth and performance, in turn, creating substantial shareholder value. Thank you all for your interest.

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