LPL Financial
Q1 2024 Earnings
Prepared Remarks

Notice to Investors: Safe Harbor Statement

Statements in this presentation regarding LPL Financial Holdings Inc.'s (together with its subsidiaries, the "Company") future financial and operating results, growth, priorities, business strategies, capabilities, and outlook, including forecasts and statements relating to the Company's future advisory and brokerage asset levels and mix, organic asset growth, market share, deposit betas, core G&A* expenses (including outlook for 2024) and expenses associated with the Company's strategic relationship with Prudential Financial, Inc. ("Prudential") and acquisition of Atria Wealth Solutions, Inc. ("Atria"), service offerings, operating margin, Gross Profit* benefits, EBITDA* benefits, target leverage ratio, client cash balances and yields, service and fee revenue, investments, acquisitions (including Liquidity & Succession transactions), capital returns, planned share repurchases, if any, the anticipated closing of pending transactions, and the amount and timing of the onboarding of acquired, recruited or transitioned brokerage and advisory assets, as well as any other statements that are not related to present facts or current conditions or that are not purely historical, constitute forward-looking statements. They reflect the Company's expectations and objectives as of April 30, 2024 and are not guarantees that the expectations or objectives expressed or implied will be achieved. The achievement of such expectations and objectives involves risks and uncertainties that may cause actual results, levels of activity or the timing of events to differ materially from those expressed or implied by forward-looking statements. Important factors that could cause or contribute to such differences include: the failure to satisfy the closing conditions applicable to the Company's pending transactions, including with Prudential and Atria; difficulties and delays in onboarding the assets of acquired or recruited advisors, including the receipt and timing of regulatory approvals that may be required; disruptions in the businesses of the Company that could make it more difficult to maintain relationships with advisors and their clients; the choice by clients of acquired or recruited advisors not to open brokerage and/or advisory accounts at the Company; changes in general economic and financial market conditions, including retail investor sentiment; changes in interest rates and fees payable by banks participating in the Company's client cash programs, including the Company's success in negotiating agreements with current or additional counterparties; the Company's strategy and success in managing client cash program fees; changes in the growth and profitability of the Company's fee-based offerings; fluctuations in the levels of advisory and brokerage assets, including net new assets, and the related impact on revenue; effects of competition in the financial services industry and the success of the Company in attracting and retaining financial advisors and institutions, and their ability to market financial products and services effectively; whether the retail investors served by newly-recruited advisors choose to move their respective assets to new accounts at the Company; the effect of current, pending and future legislation, regulation and regulatory actions, including disciplinary actions imposed by federal and state regulators and self-regulatory organizations; the cost of settling and remediating issues related to regulatory matters or legal proceedings, including actual costs of reimbursing customers for losses in excess of our reserves; changes made to the Company's services and pricing, including in response to competitive developments and current, pending and future legislation, regulation and regulatory actions, and the effect that such changes may have on the Company's Gross Profit* streams and costs; execution of the Company's capital management plans, including its compliance with the terms of the Company's amended and restated credit agreement, the committed revolving credit facility and LPL Financial's committed revolving credit facility, and the indentures governing the Company's senior unsecured notes; strategic acquisitions and investments, including pursuant to the Company's liquidity and succession solution, and the effect that such acquisitions and investments may have on the Company's capital management plans and liquidity; the price, availability and trading volumes of shares of the Company's common stock, which will affect the timing and size of future share repurchases by the Company, if any; whether advisors affiliated with Prudential will transition registration to the Company and whether assets reported as serviced by such financial advisors will translate into assets of the Company; the failure to satisfy the closing conditions applicable to the strategic relationship agreement between the Company and Prudential, including regulatory approval; the negotiation of definitive documentation in connection with the settlement of the industry-wide civil investigation into compliance with records preservation requirements for business-related electronic communications stored on personal devices applicable to broker-dealer firms and investment advisors; the execution of the Company's plans and its success in realizing the synergies, expense savings, service improvements or efficiencies expected to result from its investments, initiatives and acquisitions, expense plans and technology initiatives; the performance of third-party service providers to which business processes have been transitioned; the Company's ability to control operating risks, information technology systems risks, cybersecurity risks and sourcing risks; and the other factors set forth in the Company's most recent Annual Report on Form 10-K, as may be amended or updated in the Company's Quarterly Reports on Form 10-Q or other filings with the Securities and Exchange Commission. Except as required by law, the Company specifically disclaims any obligation to update any forward-looking statements as a result of developments occurring after April 30, 2024 and you should not rely on statements contained herein as representing the Company's view as of any date subsequent April 30, 2024.

Actual remarks made on the Company's earnings conference call could vary from the prepared remarks presented here. A webcast replay of the Company's earnings conference call will be available on the Investor Relations section of the Company's website, investor.lpl.com/events. Please refer to the Company's earnings release for additional information.

*Notice to Investors: Non-GAAP Financial Measures

The prepared remarks set forth herein include discussion of certain non-GAAP financial measures. At the time these remarks were made, listeners were referred to the Company's earnings release, which had been previously published on the Company's website at investor.lpl.com, and which contained reconciliations of such non-GAAP financial measures to comparable GAAP figures. Management believes that presenting certain non-GAAP financial measures by excluding or including certain items can be helpful to investors and analysts who may wish to use this information to analyze the Company's current performance, prospects and valuation. Management uses this non-GAAP information internally to evaluate operating performance and in formulating the budget for future periods. Management believes that the non-GAAP financial measures and metrics discussed herein are appropriate for evaluating the performance of the Company. These non-GAAP financial measures include but are not limited to adjusted EPS, gross profit, core G&A, EBITDA, Adjusted EBITDA and Credit Agreement EBITDA.

Dan Arnold, President and CEO

Thank you, Michelle, and thanks to everyone for joining our call today.

Over the past quarter, our advisors continued to provide their clients with personalized financial guidance on the journey to help them achieve their life goals and dreams. To help support that important work we remained focused on our mission: taking care of advisors so they can take care of their clients.

During the first quarter, we continued to see the appeal of our model grow due to the combination of our robust and feature-rich platform, the stability and scale of our industry-leading model, and our capacity and commitment to invest back into the platform.

As a result, we continue to make solid progress in helping advisors and institutions solve challenges and capitalize on opportunities better than anyone else and thereby serve as the most appealing player in the industry.

With respect to our performance, we delivered another quarter of solid results, while also continuing to make progress, on the execution of our strategic plan. I'll review both of these areas starting with our first quarter business results.

In the quarter, total assets increased to $1.4 trillion, as continued solid organic growth was complemented by higher equity markets. Regarding organic growth, first quarter organic net new assets were $17 billion, representing 5 percent annualized growth. This contributed to organic net new assets over the past twelve months of $96 billion, representing approximately an 8 percent growth rate.

In the first quarter, recruited assets were $20 billion, which represents a quarterly record, excluding periods when onboarding large institutions. This outcome was driven by the ongoing enhancements to our model as well as our expanded addressable markets.

Looking at same store sales, our advisors remain focused on taking care of their clients and delivering a differentiated experience. As a result, our advisors are both winning new clients, and expanding wallet share with existing clients, a combination that drove solid same store sales in Q1.

At the same time, we continue to enhance the advisor experience through the delivery of new capabilities and technology and the evolution of our service and operations functions. As a result, asset retention for the first quarter was approximately 97 percent and 98 percent over the last twelve months.

Our first quarter business results led to solid financial outcomes with adjusted EPS of $4.21.

Let’s now turn to the progress we made on our strategic plan.

Now, as a reminder, our long-term vision is to become the leader across the advisor-centered marketplace. To do that, our strategy is to invest back into the platform to provide unprecedented flexibility in how advisors can affiliate with us and to deliver capabilities and services to help maximize advisors’ success throughout the lifecycle of their businesses. Doing this well gives us a sustainable path to industry leadership across the advisor experience, organic growth, and market share.

Now, to execute on our strategy, we organize our work into two strategic categories. Horizontal expansion, where we look to expand the ways that advisors and institutions can affiliate with us, such that we are positioned to compete for all 300,000 advisors in the marketplace. And vertical integration, where we focus on delivering capabilities, technology, and services that help our advisors differentiate and win in the marketplace and be great operators of their businesses.

With that as context, let’s start with our efforts around horizontal expansion.

Over the first quarter, we saw strong recruiting in our traditional independent market, reaching a new quarterly high of approximately $15 billion in assets. At the same time, due to the ongoing appeal of our model and the evolution of our go-to-market approach, we maintained our industry-leading win rates while also expanding the breadth and depth of our pipeline.

With respect to our new affiliation models, Strategic Wealth, Employee, and our enhanced RIA offering, we delivered another solid quarter recruiting roughly $2 billion in assets. And, as we look ahead, we expect that the increasing awareness of these models in the marketplace and the ongoing enhancements to our capabilities will drive a sustained increase in their growth.

Next, in Q1 we added approximately $3 billion of recruited assets in the traditional bank and credit union space, which continues to be a consistent contributor to organic growth.

During the quarter, we also continued to make progress within the large institution marketplace where we announced that Wintrust Financial will onboard two of its wealth management businesses to our Institution Services platform. At the same time, we continued our preparation to onboard the retail wealth management business of Prudential Financial. Collectively, these two deals will add approximately $66 billion of brokerage and advisory assets by early 2025.

Now, as a complement to our organic growth, we also announced the planned acquisition of Atria Wealth Solutions, which supports approximately 2,400 advisors and 150 banks and credit unions, managing approximately $100 billion in client assets. This transaction will give Atria's advisors access to our differentiated capabilities, technology, and service. We are on track to close the transaction in the back half of this year and complete the conversion in mid-2025.

Finally, we're seeing solid momentum with our Liquidity & Succession solution as demand continues to build with existing LPL advisors, while also creating interest with advisors outside our ecosystem, including our first signed external deal in the quarter.

Now within our vertical integration efforts, we remain focused on investing back into the model to deliver a comprehensive platform of capabilities, services, and technology that help our advisors differentiate and win in the marketplace and run thriving businesses.

As part of this effort, we continue to make progress across several key areas of focus, including our ongoing journey to build a world-class wealth management platform.

Within that body of work, we are focused on meeting the evolving investment needs of our advisors and their clients, including the increasing interest for non-traditional investment products. To help solve for that demand, we are reimagining the end-to-end experience of our alternatives platform, including enhancing our custodial and operational capabilities for alternative investments, making it simpler and easier to utilize, manage, and transact these products. And at the same time, expanding our alternative investment product offering, where, over the last year we have more than doubled the number of products available for advisors to utilize.

Another key area within our vertical integration efforts is the continued enhancement of the experience our advisors deliver their clients. One of the primary ways we do that is providing increased flexibility for advisors to tailor their ideal client experience. For example, we designed AccountView, our end-client digital platform, such that an advisor can personalize access to features on a client-by-client basis. In addition, we recently launched a series of enhancements to our end-client statement, which provides increased flexibility in the channel of delivery and the cadence that clients receive the information, while also adding a unique interactive digital experience to further enrich the traditional statement.

Now, our continued work on our Services Portfolio is also a key area of our vertical integration strategy. As a reminder, these services help solve for a broad spectrum of advisors' and institutions' needs and, in doing so, help position them to deliver great advice and be great operators of their businesses.

In that spirit, we are developing a number of solutions that help advisors expand the breadth and depth of their advice, including the more effective utilization of financial planning, catering to the more complex needs of high-net-worth investors and delivering more personalized investment solutions. For example, as part of our efforts to enrich our planning capabilities, last year we introduced our Tax Planning service, which is seeing strong demand in the market, and more recently, we expanded our High-Net-Worth services to enhance our advisors' support of their high-net-worth prospects and clients through complex case design, estate planning, and investment product analysis, and the early indications have been favorable. Finally, we're in pilot with our latest innovation, our new outsourced Chief Investment Officer service, which provides advisors with personalized investment expertise, powered by LPL Research. And based on the initial feedback, this is unlocking additional growth and efficiency in our advisors' practices.

Collectively, these services help expand our advisors' value proposition to their clients, enable them to win new prospects, and increase the differentiation and appeal of our platform. As we move forward, we will continue to solve for our advisors' needs at every stage of their practice in order to help them build the perfect business for themselves, and ultimately maximize their success.

In summary, in the first quarter, we continued to invest in the value proposition for advisors and their clients, while driving growth and increasing our market leadership. As we look ahead, we remain focused on executing our strategy to help our advisors further differentiate and win in the marketplace and as a result, drive long-term shareholder value.

With that, I'll turn the call over to Matt.

Matt Audette, CFO and Head of Business Operations

Alright, thank you, Dan, and I'm glad to speak with everyone on today's call.

As we move into 2024, we remain focused on serving our advisors, growing our business and delivering shareholder value. This focus led to another quarter of strong organic growth in both our traditional and new markets, and we are preparing to onboard the wealth management businesses of Prudential and Wintrust. In addition, we continued to build momentum in our Liquidity & Succession solution, including our first signed deal with an external practice. We also entered into an agreement to acquire Atria Wealth Solutions, which we plan to onboard to our platform in mid-2025. So as we look ahead, we remain excited by the opportunities we have to serve and support our nearly 23,000 advisors, while continuing to invest in our industry leading value proposition and drive organic growth.

Now let’s turn to our first quarter business results. Total advisory and brokerage assets were $1.4 trillion, up 6% from Q4, as continued organic growth was complemented by higher equity markets. Total organic net new assets were $17 billion or approximately a 5% annualized growth rate.

Our Q1 recruited assets were $20 billion, which prior to large institutions, was the highest quarter on record. Looking ahead to Q2, our momentum continues, and we are on pace to deliver another strong quarter of recruiting.

As for our Q1 financial results, the combination of organic growth and expense discipline, led to adjusted EPS of $4.21.

Gross Profit was $1 billion 66 million, up $59 million sequentially. As for the components, commission and advisory fees net of payout were $260 million, up $41 million from Q4, primarily driven by higher advisory fees and a seasonally lower production bonus.

Our payout rate was 86.6%, down 100 basis points from Q4, largely due to the seasonal reset of the production bonus at the beginning of the year. Looking ahead to Q2, we anticipate our payout rate will increase to approximately 87.5% primarily driven by the typical seasonal build in the production bonus.

With respect to client cash revenue, it was $373 million, down roughly $1 million from Q4.

Looking at overall client cash balances, they ended the quarter at $46 billion, down $2 billion sequentially, driven by advisory fees paid during the quarter. Outside of those fees, cash balances were flat to Q4. As for our ICA portfolio, the mix of fixed rate balances increased to roughly 65%, within our target range of 50% to 75%.

Looking more closely at our ICA yield, it was 323 basis points in Q1, up 6 basis points from Q4. As for Q2, based on where client cash balances and interest rates are today, we expect our ICA yield to decline by a few basis points.

As for Service and Fee revenue, it was $132 million in Q1, up $1 million from Q4. Looking ahead to Q2, we expect Service and Fee revenue to be roughly flat sequentially.

Moving on to Q1 transaction revenue. It was $57 million, up $3 million sequentially as trading volume increased slightly. As we look ahead to Q2, based on typical seasonality and activity levels to date, we would expect transaction revenue to decline by a few million from Q1.

Now let's turn to expenses, starting with Core G&A. It was $364 million in Q1. For the full year , we continue to anticipate core G&A to be in a range of $1 billion $455 million to $1 billion $490 million. As a reminder, this is prior to expenses associated with Prudential and Atria.

Moving on to Q1 promotional expense. It was $132 million, down $6 million from Q4, due to lower onboarding costs for large institutions. Looking ahead to Q2, we expect promotional expense to increase by approximately $10 million sequentially, due to increased transition assistance resulting from strong recruiting, and large institution onboarding as we prepare for Prudential to join us in the fourth quarter.

Looking at share-based compensation expense, it was $23 million in Q1, up $7 million from Q4. As we look ahead, we anticipate this expense to be at a similar level in Q2.

Turning to depreciation and amortization, it was $67 million in Q1, down $1 million sequentially. Looking ahead to Q2, we expect depreciation and amortization to increase by roughly $5 million sequentially, which includes technology development for Prudential.

Regarding capital management, our balance sheet remained strong. We ended Q1 with corporate cash of $311 million, up $127 million from Q4. Our leverage ratio was 1.6 times, flat with Q4.

As a reminder, we expect to close our acquisition of Atria in the second half of this year, and plan to finance the transaction through a combination of cash and debt. Following the close, we continue to expect leverage to be approximately 2.0x, near the midpoint of our target leverage range.

As for capital deployment, our framework remains focused on allocating capital aligned with the returns we generate: investing in organic growth first and foremost, pursuing M&A where appropriate, and returning excess capital to shareholders.

In Q1, we deployed capital across our entire framework, as we continued to invest to drive and support organic growth, allocated capital to M&A within our Liquidity & Succession solution, and returned capital to our shareholders, repurchasing $70 million dollars of shares in January. We paused share repurchases for the last two months of the quarter, to ensure we maintain a strong and flexible capital position when we close on our acquisition of Atria. Following the close expected in the second half of this year, we will evaluate restarting share repurchases, consistent with our existing capital framework.

In closing, we delivered another quarter of strong business and financial results. As we look forward, we remain excited about the opportunities we see to continue investing to serve our advisors, grow our business, and create long-term shareholder value.

With that, Operator, please open the call for questions.