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LPLA.OQ - Q1 2025 LPL Financial Holdings Inc Earnings Call

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OVERVIEW:

Company Summary

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Daniel Fannon *Jefferies - Analyst*

Mike Brown *Wells Fargo - Analyst*

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Chris O'Brien *Barclays - Analyst*

PRESENTATION

Operator

Good afternoon, and thank you for joining the first-quarter 2025 earnings conference call for LPL Financial Holdings Inc. Joining the call today are our Chief Executive Officer; Rich Steinmeier and President and Chief Financial Officer, Matt Audette. Rich and Matt will offer introductory remarks and then the call will be open for questions.

(Operator Instructions) The company has posted its earnings press release and supplementary information on the Investor Relations section of the company's website, investor.lpl.com.

Today's call will include forward-looking statements, including statements about LPL Financial's future financial and operating results, outlook, business strategies and plans as well as other opportunities and potential risks that management foresees.

Such forward-looking statements reflect management's current estimates or beliefs and are subject to known and unknown risks and uncertainties that may cause actual results or the timing of events to differ materially from those expressed or implied in such forward-looking statements.

For more information about such risks and uncertainties, the company refers listeners to the disclosures set under the caption, forward-looking statements in the earnings press release as well as the risk factors and other disclosures contained in the company's recent filings with the Securities and Exchange Commission.

During the call, the company will also discuss certain non-GAAP financial measures. For a reconciliation of such non-GAAP financial measures to the comparable GAAP figures, please refer to the company's earnings release, which can be found at investor.lpl.com.

With that, I will now turn the call over to Mr. Steinmeier.

Rich Steinmeier - LPL Financial Holdings Inc - Chief Executive Officer

Thanks, operator, and thank you to everyone for joining our call. It's a pleasure to speak with you again. It's been a strong start to the year for LPL. We delivered another quarter of strong business performance, we reported excellent financial results, and we reached an agreement to acquire Commonwealth, significantly accelerating our progress towards our vision to be the best firm in wealth management. We accomplished this against a challenging operating backdrop with rising macroeconomic uncertainties. It's periods like this that serve as a reminder of the value of professional advice, the importance of our responsibility to support our advisors, and the strength and resiliency of our business model.

Okay. Now let's turn to our Q1 results. Despite market headwinds during the quarter, total assets increased to a new quarterly high of \$1.8 trillion as we attracted record organic net new assets of \$71 billion, representing a 16% annualized growth rate. Our first-quarter business results led to strong financial performance with record adjusted EPS of \$5.15.

Now let's turn to our strategic plan and our growth across our organic and inorganic activity initiatives. Our vision is clear. We aspire to be the best firm in wealth management. To do that, we are focused on three key priorities: one, pursuing novel and differentiated strategies that enable the firm's sustained success; two, creating an extraordinary employee experience, so employees in turn deliver an unparalleled client experience; and three, leading the firm with operational excellence through increased intentionality and rigor.

Effectively executing on these focus areas will help us sustain our industry-leading growth while delivering improved operating leverage. With that as context, let's review a few highlights of our business growth. In the first quarter, Recruited Assets were \$39 billion, bringing our total for the trailing 12 months to a record \$167 billion.

In our traditional independent market, we added approximately \$20 billion in assets during Q1, a record for the first quarter of the year. This improves on our already industry-leading capture rates of advisors in motion, while also expanding the breadth and depth of our pipeline.

With respect to our expanded affiliation models, Strategic Wealth, Independent 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 sustainable growth.

Next, we added approximately \$1 billion of assets in the traditional bank and credit union market. We also continued to make progress with large institutions. During the first quarter, we onboarded the retail wealth management business of Wintrust Financial and completed the transition of Prudential Advisors onto our platform. Our momentum continued in Q2, where in April, we announced that First Horizon would onboard its wealth management business to our Institution Services platform.

Turning to overall asset retention. It remains industry-leading at 98% for the first quarter and over the last 12 months. This is a testament to our continued efforts to enhance the advisor experience through the delivery of new capabilities and technology, and the evolution of our service and operations functions. As a complement to our organic growth, we closed and onboarded the acquisition of The Investment Center and advanced our work to onboard and integrate Atria Wealth Solutions, for which the conversions began last weekend.

Now, as for our planned acquisition of Commonwealth Financial Network, I can't underscore enough how honored we are to be partnering with the team at Commonwealth as we jointly engage with their advisors to articulate the power of combining our two firms. I have personally had the good fortune of speaking with a number of Commonwealth advisors. And the more time I spend with them, the more I understand the power of this distinguished community.

Many of these advisors have worked together for decades, supported by a highly responsive management team that has cultivated a unique culture and family-like atmosphere. I have the utmost conviction in the value of preserving and fostering the Commonwealth community.

We remain steadfast in our commitment to delivering on this tremendous opportunity to bring together the best of two great firms. We will preserve Commonwealth's industry-leading service experience, which has garnered the number-one in independent advisor satisfaction with J.D. Power for 11 consecutive years and we'll build upon that with an upgraded best-of-breed platform, including more flexible technology, a more comprehensive product set, extensive research and unique capabilities like LPL's Liquidity & Succession offering.

By preserving the Commonwealth experience for advisors and maintaining continuity in the broader community and culture, while also leveraging the substantial resources and capabilities of LPL, we will deliver an unparalleled offering for independent financial advisors with Commonwealth at LPL.

We are still in the early innings of the retention effort, but are tracking to our plan and in line with our expectations with respect to advisor commitments. We spent the last several years building out the team, processes and capabilities to execute large and complex boardings, all geared towards ensuring a frictionless experience for transitioning advisors. We are now focusing those resources on this important opportunity to ensure that we deliver a seamless transition.

In closing, the first quarter was a strong start to the year, and we feel great about our position as a critical partner to our advisors and institutions, while we continue to maximize long-term value for shareholders.

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

Matthew Audette - LPL Financial Holdings Inc - Chief Financial Officer, Principal Accounting Officer

Thanks, Rich. I'm glad to speak with everyone on today's call. As we move into 2025, 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 traditional and expanded markets as we onboarded the wealth management businesses of Prudential and Wintrust, and are preparing to onboard First Horizon later this year.

As a complement to our strong organic growth, we closed and onboarded the acquisition of The Investment Center in March, continue to prepare to onboard our Atria advisors, and lastly, entered into an agreement to acquire Commonwealth Financial Network. So as we look ahead, we are more excited than ever by the opportunities we have to serve and support our growing advisor base while continuing to deliver an industry-leading value proposition and drive organic growth.

Now turning to our first-quarter business results. Total advisory and brokerage assets were \$1.8 trillion, up 3% from Q4 as record organic net new assets more than offset lower equity markets. Total organic net new assets were \$71 billion, an approximately 16% annualized growth rate. Prior to the onboarding of Wintrust advisors in the remaining Prudential assets, our annualized organic growth rate was approximately 7%, a strong result, both on an absolute and relative basis.

On the recruiting front, Q1 recruited assets were \$39 billion, which included \$16 billion from Wintrust. Prior to large institutions, recruited assets were approximately \$22 billion, a record for the first quarter of the year. As for our Q1 financial results, the combination of organic growth and expense discipline led to an adjusted pretax margin of approximately 40% and record adjusted EPS of \$5.15.

Gross profit was \$1.273 billion, up \$45 million sequentially. As for the components, commission and advisory fees net of payout were \$363 million, up \$50 million from Q4. Our payout rate was 86.8%, 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 by approximately 60 basis points, driven by the typical seasonal build in the production bonus. With respect to client cash revenue, it was \$408 million, up \$11 million from Q4 as average cash balances increased during the quarter. Overall client cash balances ended the quarter at \$53 billion, down \$2 billion sequentially, primarily driven by advisory fees paid during the quarter.

Within our ICA portfolio, the mix of fixed rate balances ended the quarter at roughly 60% within our target range of 50% to 75%. Looking more closely at our ICA yield, it was 337 basis points in Q1, up 2 basis points from Q4, driven by higher yields on our fixed rate contract renewals. As we look ahead to Q2, based on where client cash balances and interest rates are today, as well as the yields on our new fixed rate contracts, we expect our ICA yield to be roughly flat to Q1.

As for Service and Fee revenue, it was \$145 million in Q1, up \$6 million from Q4, driven by strong organic growth and higher IRA fees. Looking ahead to Q2, we expect Service and Fee revenue to increase by approximately \$5 million sequentially, driven by conference revenues and the underlying growth of the business.

Moving on to Q1 transaction revenue. It was \$68 million, up \$6 million sequentially due to increased trading volumes. As we look ahead to Q2, we expect transaction revenue to be roughly flat.

Now let's move on to our recent large institution onboardings as well as our closed and upcoming acquisitions. As for large institutions, in Q1, we onboarded Wintrust and completed the transition of Prudential onto our platform. Collectively, these onboardings added over \$80 billion of client assets.

In terms of M&A, we recently started the onboarding of Atria advisors, which will continue for the next few months and expect to close our acquisition of Commonwealth in the second half of this year. These acquisitions are expected to add nearly \$350 billion of client assets to our platform.

Now let's turn to expenses, starting with Core G&A. It was \$413 million in Q1. For the full year 2025, we're seeing early returns on our renewed focus to drive operating leverage in the business, as our efficiency efforts have slowed the growth of core G&A. As a result, we're lowering the upper end of our outlook range by \$15 million. We now anticipate full year '25 core G&A to be in a range of \$1.730 billion to \$1.765 billion, which includes \$170 million to \$180 million of expenses related to Prudential and Atria, but is prior to expenses associated with Commonwealth.

To give you a sense of the near-term timing of the spend, as we look ahead to Q2, we expect core G&A to be in a range of \$435 million to \$445 million.

Moving on to Q1 promotional expense. It was \$152 million down \$21 million from Q4, primarily driven by lower Prudential related onboarding costs as well as seasonally lower conference expense. Looking ahead to Q2, we expect promotional expense to increase by approximately \$20 million, driven by conference spend as well as increased transition assistance resulting from strong recruiting.

Turning to depreciation and amortization. It was \$92 million in Q1, flat –sequentially. Looking ahead to Q2, we expect depreciation and amortization to increase by roughly \$5 million.

As for interest expense, it was \$81 million in Q1, down \$1 million sequentially due to lower interest expense on our floating rate debt.

In addition, in early April, we issued \$1.5 billion of senior notes to finance a portion of the acquisition of Commonwealth. As a result, in Q2, we expect interest expense to increase by approximately \$20 million sequentially.

Lastly, a reminder that until the closing of Commonwealth, we will earn interest on the proceeds from our recent capital raise. As such, we expect interest income to increase by approximately \$30 million sequentially.

Regarding capital management, We ended Q1 with corporate cash of \$621 million, up \$142 million from Q4. As for our leverage ratio, at the end of Q1, it was 1.8x.

As a reminder, we expect to close our acquisition of Commonwealth in the second half of this year, and following the close, we expect our leverage ratio to be approximately 2.25x, a little above the midpoint of our target range of 1.5x to 2.5x.

To uphold our commitment to maintaining a strong and flexible capital position, we paused share repurchases following the announcement of our planned acquisition of Commonwealth. Following the close, we have a plan to reduce leverage closer to the midpoint of the range by the end of 2026. Once we onboard Commonwealth, we will revisit share repurchases, guided by our leverage ratio at that time, and our overall capital allocation framework.

Moving on to 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, both within our Liquidity & Succession program as well as the acquisition of The Investment Center, and lastly, return capital to our shareholders, buying back \$100 million of our shares.

In closing, we delivered another quarter of strong business and financial results. As we look forward, we remain excited about the opportunities we have to continue to drive growth, deliver operating leverage and create long-term shareholder value.

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

QUESTIONS AND ANSWERS

Operator

Devin Ryan, Citizens Bank.

Devin Ryan - JMP Securities - Analyst

On Commonwealth, Rich, I heard the prepared remarks. It would be great to get some additional context just on how the conversations have been going anecdotally, if you can frame how far through the recruiting process you are and how the financial packages are coming together relative to what you modeled?

And then interrelated, on the other side, the reaction from LPL advisors and other advisors in motion, you're speaking with, I'm assuming, others could be excited about what this could look like pro forma or are at least curious. So I'd love to get some thoughts on that as well.

Rich Steinmeier - LPL Financial Holdings Inc - Chief Executive Officer

Yeah. Thanks, Devin. I think the way you were able to package a bunch of questions together there that didn't technically violate the single question rule, but definitely a nuance in itself. So maybe let's hit this thing head on. And if I don't hit all of the sub-elements, just come back to me.

So I would say on balance, the trend is going very well. We announced it at the end of March, and so we're about five weeks into the effort. And so that's still quite early as -- especially as you head through an event like this where folks really cherish Commonwealth and so they need a little bit of time, the advisors, to reflect on the announcement as well.

But we're progressing in line with our expectations. As I mentioned, tracking towards our 90% retention target. We've seen there's been ample chatter in the marketplace around the deal, but that really speaks to the importance of the Commonwealth franchise and quite honestly, the quality of their advisors.

It's exactly what we expected to see with the franchise of this quality. So we've spent the last several weeks working closely with the Commonwealth team and I've been really engaged personally with their advisors. The collective team has been engaged in person and in virtual meetings. Good news is they've had conferences recently, so we've had joint conference participation with the advisors to share the forward-looking LPL value proposition plus Commonwealth proposition together.

We have regular engagement with the Commonwealth leadership team on how to make sure that we're reflecting this properly back to all of the advisors. And in every manner of human interaction, even in just this week alone, I shout out a couple of great conversations I personally had with Dan and Kari Pennise during a rain-soaked bike ride in Scottsdale with 21 advisors and families.

I was out on a wine thing tour, actually blind wine tasting with Reagan Saylor, Wes Botto and other advisors, again, having casual interactions. I had lunch on Sunday in Sacramento with Leslie Roper Day, coincidentally whose brother is the drummer for the band Cake, and Landon Tymochko, and just having those interactions to hear where they stand.

And of course, the advisors are wanting to make sure they do proper diligence and they're wanting to understand this continuation of Commonwealth, and I think those reflect those conversations as really productive, folks listening, asking really great questions, as you might expect from real professionals.

What those discussions have really reflected for me, and the two conferences I've attended the last two weeks, is that Commonwealth is a very tight-knit community that oftentimes feels are more like a family. And we are deeply committed to keeping that community intact, safeguarding their experience, their cultures, their capabilities.

And so with LPL, Commonwealth advisors can look forward to all of what makes Commonwealth great plus the enhancements that will improve their overall experience while together, including preserving the brand, premium service model, their leadership team, committing meaningful resources to train and onboard Commonwealth Financial Network service professionals to continue to deliver the service to the existing Commonwealth advisors. We'll deliver capabilities that preserve the elements of the advisor experience as well, like robust feedback mechanisms, et cetera.

And so, beyond all of that, we'll facilitate as seamless a conversion possible and we've demonstrated a peerless track record of executing scale conversions, with over 90% of Commonwealth accounts moving without repapering. And so -- in addition to all of that, the Commonwealth advisors will benefit from our best-of-breed platform, more flexible technology, comprehensive product set, extensive research, unique capabilities like L&S.

But all in all, we feel great about the value proposition we're delivering to Commonwealth advisors, and feel great about the shape of the transaction itself.

Now you asked specifically about how LPL advisors have reacted. And I would tell you, on balance, it is almost nearly universal in LPL advisors being incredibly supportive of joining together with Commonwealth. So many of our advisors have deep friendships with Commonwealth advisors. Like us as a firm, they've held them in high regard for years, and look forward to being part of a bigger ecosystem that includes both of the advisor sets.

They also know that so much of the culture that we're talking about at Commonwealth is actually going to be delivered back into LPL more broadly. And so the enhancements of our service experience, the ability to capture feedback real time and then disposition and act on that feedback, the responsive culture and again, in an aligned environment that, quite honestly, these are the two best firms in the 1099 marketplace.

They support independent advisors unlike any other firm, and the advisors recognize that harmony of those two firms coming together. And so across the board, I just getting high fives and handshakes from our LPL advisors about the thought of bringing those best-of-breed capabilities that Commonwealth, has into LPL, while being able to be party to a community that has some of their best friends as well.

Operator

Steven Chubak, Wolfe Research.

Steven Chubak - *Wolfe Research - Analyst*

I did want to ask on expenses. So encouraging to see the tightening of the core G&A range and moving that upper bound lower. I was hoping we can get some additional context around the source of those efficiencies and your confidence in the ability to deliver positive operating leverage while still making the necessary investments in the services platform and deploying that firm-wide, leveraging the Commonwealth offering.

Matthew Audette - *LPL Financial Holdings Inc - Chief Financial Officer, Principal Accounting Officer*

Yes, I think the headline is the conviction is high. I think even when you just look at what we talked about on guidance for just this quarter, right? I think when you -- maybe a little bit of context first, in our core G&A growth rate -- as you know well, going back just a couple of years ago, we're in the double-digit range, 15% in 2023. And just the plans for this year to be down to 6% to 8% and then just one quarter in a year, I think you know us well, is not very often that we would update our guidance just after one quarter.

And I think that gets to the heart of your question, on the confidence that we have in delivering operating and we're making great progress already. And to your question on the things that we are doing and the source of those, it's kind of basic things, but I think we are very focused on executing.

It's automating manual processes, it's reducing friction in the system that leads to fewer calls into the service center, it leads to fewer errors in documents that both frustrates advisors and our teams on our side that have to process them. So it's the types of investments that I think it's a rarity where you can invest a dollar in something, where not only does it reduce costs, but it also improves the client experience and improves our employee experience. So kind of a three for one on what we're delivering here.

So I think our conviction is high. And of course, we'll continue to update along the way. But this is something, and maybe just to add to it, it's not just about our conviction is high for 2025. I think this is something that has really been something we focused on before, but I think with the focus, the enhanced focus we have now, I'd describe it as more ingrained in our culture because this, again, to repeat the point, if we can do something that improves our client experience, our employee experience, and drop savings to the bottom line, meaning our investor experience, it's a no-brainer to really, really focus on that.

And I think to your point on how we can continue to do that while still investing in the Services Group, still investing to deliver and support the Commonwealth experience, they're related. Like that is the reason that we can do that. The reason that we can just deliver and support those and those capabilities because we are getting more efficient, more effective in the rest of the company.

So it's all connected, but headline perhaps is obvious. We're excited about the progress we've made so far and our conviction on continuing to do this remains high.

Operator

Michael Cyprys, Morgan.

Michael Cyprys - *Morgan Stanley & Co. LLC - Analyst*

Maybe just on the recruiting pipeline, maybe you could just speak to that for a moment, just in terms of how you see that shaping up in this more volatile backdrop here across the markets? Curious what you're seeing, what your expectations are for LPL, but also the broader industry, do you see advisor movement slowing? Have changed? Do you think there's scope for advisor movement to pick up? And how are you seeing the pipeline shape up across your various channels?

Rich Steinmeier - LPL Financial Holdings Inc - Chief Executive Officer

Thanks, Michael, it's Rich. So maybe let me try to hit those in turn. I think as we've looked over, we've seen a new normal in the advisor movement. It's moved to about 5% movement in or around that range. Historically, we have been used to seeing advisor movements it in that some is 6%, sometimes as high as 6.5% range. And so when you think about the environment that we're in today, it does feel like we're in a new normal.

Now for us, while we see that as potentially the new normal and would be opportunistic if that were to move higher, you see us continuing to deliver improved results because that's reflective of our win rates continuing to move higher. I think you can see that in our Q1 results. And I think you've seen that sustainably over the last quarters as well as the last couple of years.

We have heard a little bit in the marketplace around an enhanced competitive landscape -- that doesn't feel much different than the competitive landscape we've been in before. We have heard, as you have heard from several peers that they are intended to change their transition assistance to try to drive more capture.

But I would remind you that as we talk to advisors, and we probably talk to more advisors on the move than any other firm in the industry. They're looking for a firm that has capabilities, technology, service that is unparalleled, that's the first. Then they look at ongoing economics for which I can tell you, even in the throes of this Commonwealth recruiting event, what we see from ourselves relative to competitive peers are, they may be throwing large TA, but their ongoing economics are not compelling relative to ours.

And the third thing that advisors will look at is transition assistant rates. And so we feel really confident that the appeal of our model continues to strengthen that we should be able to maintain our industry leading capture of advisors in motion.

Now, specific to an environment that looks a little more volatile. And I think that's seen recently is a little more volatility. Historically, when we've seen more volatile market environment, you will see sometimes advisors push out moves. That's what we're used to. Those advisors don't not move, but there are often times, they don't want to be out in the marketplace during a highly volatile experience for their end-investors, or their clients.

So you can see the push that may move and give you a little idiosyncratic results quarter-to-quarter. But over a longer arc, those advisors are still going to move firms. We continue to see in our pipeline that we're having really good conversations. We continue to see the pipelines grow. But I would say, I'm probably a little bit wary of what will happen in a continued volatile market around the margins as to whether some of that movement doesn't push out a quarter or two.

Operator

Alex Blostein, Goldman Sachs.

Alexander Blostein - Goldman Sachs & Company, Inc. - Analyst

So maybe just building on that last question around the current environment. It feels like the underlying client, the wealth client, the customer, has been hanging better in this market sell off than what we've seen in the past. So maybe talk a little bit about just the same-store sales dynamics in the book that you've seen through this market volatility, to what extent that differs maybe from other periods of market sell off? And as part of that, the obligatory question on cash, where that stands, would be helpful.

Rich Steinmeier - LPL Financial Holdings Inc - Chief Executive Officer

Thanks, Alex. So let's talk about same-store sales. So for us, same-store sales has been a real point of emphasis, certainly over the last couple of years, to continue to build more support into our advisors and give them the tools and capabilities to consistently grow their practice.

We've done that through building more growth coaching programs, through having more active engagement and financial planning, being active in the marketplace to help our advisors as they think about brokerage to advisory.

And you can look at some, even teaming and structure of teams. And so we've continued to enhance our support of our advisor same-store sales by building a robust team and support network to help them implement not only best practices, but, even not just learn about best practices, but in practice, if they want to do more planning, our Business Solutions come into the fold in a very material way. We've got support of High-Net-Worth Services and helping them win high-net-worth cases as well.

We have paraplanners and advanced planning teams that can help them not only with straightforward planning, but with advanced planning capabilities, including tax planning and estate planning. And so for us, we've been building a more and more robust set of services and solutions in support of our advisors. And likewise, we've seen strengthening in our same-store sales that we think -- we hope, is going to be sustainable across a longer arc.

In this market segment, I think you're probably right during this movement. We've seen what you get to in volatility, Alex, it's not -- it's a little bit different than the advisor discussion we just had, which is that in volatility, advisors may stay put. What you'll see in volatility for end investors is a flight to quality.

In fact, what you will see is more often than not, a flight out of robo-solutions, self-serve solutions, self-directed solutions into advisors. Reflecting this resilient offering that we support in marketplace, which is the best advisors in the industry, delivering advice to end investors.

And investors are looking for support, they're looking for advice, they're looking for guidance. You will see that in the form of financial advisors. And so it wouldn't surprise me that across highly volatile times, what you would see is advisors seeing, winning more and more new clients, while losing less clients at the same time. So that's maybe a broad-brush stroke over same-store sales, and I'll let Matt hit the cash question.

Matthew Audette - LPL Financial Holdings Inc - Chief Financial Officer, Principal Accounting Officer

And Alex, given we're sitting here in May, I'll give maybe a bit of a comprehensive update on April, starting with cash to your question. So as I think you know well, but just to emphasize for everybody, there are two seasonal factors in April from a cash standpoint. The biggest is annual cash payments, typically occur primarily in that month. That reduced cash for us by around \$2.5 billion.

And in the normal month one of a quarter, advisory fees of the highest month, in the first month of the quarter, which brought cash down around \$1.7 billion. So put those two things together, just from a seasonal standpoint, cash was down a little over \$4 billion in the month. Outside of that, though, normal activity had cash grow by almost \$3 billion.

So you net all of that out, in April cash decreased by about \$1.3 billion to a total of around \$51.8 billion, which I would describe as being a bit better than typical or a bit better than expected for the month of April.

On the organic growth side, similar seasonality for April. Both those items, taxes and advisory fees also reduce NNA by about 3 percentage points. And when you factor that in, April organic growth came in around 4%. So 7% prior to those two seasonal factors.

One thing I would remind though, for NNA for Q2 is those large OSJ separations that we discussed a few quarters back. They collectively served around \$20 billion of assets. \$9 billion of that has off-boarded so far through Q1. So we have \$11 billion to go, which we expect the majority of that to be in Q2 and potentially into Q3. So just keep that in mind for the quarter.

And then lastly, given -- again, we are sitting here in May, just pointing to where April overall AUM ended, with the market headwinds offsetting the organic growth that we had, April ended right around where March did.

So around \$1.8 trillion. So a little bit of a unique update given, we're already sitting here in month two, but I hope that helps.

Operator

Dan Fannon, Jefferies.

Daniel Fannon - Jefferies - Analyst

I was hoping to get an update on the integration and onboarding of Atria and Prudential. Really how that's tracking versus the original estimates and expectations you gave us when those deals were announced.

Matthew Audette - LPL Financial Holdings Inc - Chief Financial Officer, Principal Accounting Officer

Sure. I'll start with Atria. So overall, is we're on track, right? If you remember, we closed in Q4 last year. We're on track to meet our estimate of 80% retention, which would be around \$88 billion of assets. And in terms of the run rate EBITDA, nothing has changed there. Even despite a little market pullback, we anticipate still hitting that run rate benefit from an EBITDA standpoint of \$150 million by the end of this year.

And then maybe just an update on the conversions, which have begun. We mentioned that a little bit in the prepared remarks, but we've got, as a reminder, seven conversions to do in total. We just did the first two just this last weekend, two conversions with two different custodians, which is not an easy thing to do.

And I would tell you overall, the conversions went really well. And I think it's just a testament to that team, the capabilities that we've built, the experience that we have, and really doing the conversions -- those went well. So five more to go, and those will happen over the next couple of quarters. And then the revenue and expense synergies really follow for that. So headline is going well and in line with those estimates.

With respect to Prudential, we've now completed that onboarding which led to an overall \$67 billion of assets coming onto the platform, \$27 billion of that was this quarter. And that was a bit better than the numbers at announcement, which we were expecting to be \$60 billion. So that flows through a bit to the EBITDA contribution as well. So we had initially expected a \$70 million run rate. And with those incremental assets as well as syncing up the rest of the model, we now expect to hit a run rate of \$80 million of EBITDA from Prudential.

And we're about through the quarter, we're about halfway there on that. And so the rest of the synergies will come through. And one of the big drivers of that is the cash balances as they make their way into our cash sweep program. That's driven by trading activity.

So that will shift over the remainder of this year. Hard to predict because it is trading activity, but I think we've done this enough times. If history is a guide, by the end of this year, the majority of those balances will shift through. So that should lead to that \$80 million of run rate EBITDA from Prudential.

Operator

Mike Brown, Wells Fargo.

Mike Brown - Wells Fargo - Analyst

So the pace of institution wins has continued at a high pace. I just wanted to check in, how is the pipeline looking for activity there? And what is the right cadence for you now on an annual basis?

Rich Steinmeier - LPL Financial Holdings Inc - Chief Executive Officer

Yeah. Thanks. Appreciate the question. It's Rich. So I think maybe I'll take a step back and we'll answer the question, but I want to give you maybe a bit of a broader perspective. As we look at -- we look at a couple of markets. First, as we look at the large bank market, where we really have clear leadership in that market, and we've successfully attracted \$120 billion in assets to date, including First Horizon, which we announced earlier.

That large bank opportunity is around a \$1.5 trillion market opportunity. We got to like our position in that market, because we're usually the first call you're going to make as you begin exploring, thinking about a partnered outsourced model.

And we continue to make enhancements to our experiences, delivery in that marketplace to continue that leadership. And then subsequently, we've extended our offerings into that insurance BD as well as product manufacturers, which for us, again, represents an additional \$1.5 trillion additional market opportunity. As Matt alluded to, we completed that conversion with Prudential in Q1, which I think as well gives us a run rate client at scale, we can reflect the experiences, the ease of the transition, and then the ongoing value in the partnership.

Now all of those, with leadership in those two marketplaces would reflect in our pipeline, we continue to add to a deep list of potential partners considering. But I would give you one other perspective coming here.

Given the critical work we have ahead of us to complete the Atria onboarding and to prepare for the acquisition of Commonwealth, we're really focusing our resources on delivering a seamless experience for those new advisors joining our platform, and while ensuring we continue to deliver a great experience for our existing advisors. So I wouldn't expect too much by way of other large announcements for the time being.

Operator

Bill Katz, TD Cohen.

Bill Katz - TD Cowen - Analyst

Just coming back to the knock-on effects with the Commonwealth transaction. More interested now in terms of what the strategic response is by some of the smaller players and whether or not the combination or the pro forma combination might unlock more opportunities to consolidate strategically versus just through regular way financial advisor wins. Thank you.

Rich Steinmeier - LPL Financial Holdings Inc - Chief Executive Officer

Yes, Bill, I'll take a cut at it, Rich. And then you redirect me if you don't think you're getting the answer to the question you asked. So I think what we've seen in the marketplace is, a lot of activity regarding Commonwealth advisors, as I had alluded to. But to be completely frank with you, I'm not sure that there are a lot of credible players that Commonwealth advisors would consider as an alternative to LPL.

I think there are a couple out there and they're being very active. I think you see a lot of the smaller players trying to take and assert themselves into this market opportunity. And I think it's just going to be a struggle for them to be competitive relative to our robust set of capabilities, especially when you think of how we have been very clear on that we are keeping the Commonwealth experience. We are keeping the brand, that we are keeping the service associates that deliver their experience today.

So we are keeping the culture, the community, the trips, study groups, the practice consultants, power of practice consultants that help them grow. You look at that and say, that has been an exceptional franchise with an exceptional leadership team that has delivered support for advisors over 46 years, put that together with LPL. And it is very hard, Bill, to come credibly forward as an alternative to that.

And I'd say whether you're small or whether you're large, I do not believe there is a credible alternative that is close to our experience. And when you put on top of that the fact that we are going to go through a non-conversion event, meaning that largely these advisors, as I mentioned, over

90% of their accounts will not have to be repapered, they will keep the continuity of the service experience. They will not change their brand. They will not have to explain to their clients a major change. They will not have to be out of the marketplace for 30, 60, 90 days as they work through repapering.

I think it leads to -- I'm hopeful that we will continue to reflect our capabilities, stay humble, and have the Commonwealth advisors realize that this combined firm will be the leader, not just in the 1099 segment, but across wealth management.

And quite honestly, I would say for advisors, you want to be with a term firm that is changing the industry, not reacting to industry change. And that's the orientation of this firm. We are shaping where the industry is headed. We are pushing forward to serve advisors new and differentiated ways while recognizing that advisors are our number-one constituents, and we serve them.

Now you asked about whether small firms can continue to participate in the marketplace. I'm sure they will have the ability to carve unique positions in the market. But I think day by day, it becomes more challenging for players that are not at scale to compete effectively with firms like ourselves who not only have scale, capacity to invest, but have been committed. I think we are unique in the marketplace and that we have committed to the flexibility to ensure the unique communities and service experiences that have first been demonstrated through our newer affiliation models that subsequently will be demonstrated through our Commonwealth partnership, where we will allow them to feel flexible and small while gaining the scale and capabilities of a leading player in the marketplace.

Just think it gets challenging day after day for smaller players to continue to compete. It doesn't mean it's impossible. There are some great players in the marketplace, but I think it's harder.

Operator

Jeff Schmitt, William Blair.

Jeff Schmitt - *William Blair & Co LLC - Analyst*

How does your internal capacity look for onboarding deals and partnerships? Obviously you have done quite a few, just curious if you're seeing any constraints where you need to build that out further as these deals get bigger. Or do you think you can continue with deals at this pace?

Matthew Audette - *LPL Financial Holdings Inc - Chief Financial Officer, Principal Accounting Officer*

Jeff, I'll answer that one. I think maybe building a little bit on what Rich was saying earlier and my comments. I think from a capacity standpoint and a team standpoint, I think we've built a great team and tools and capabilities to bring -- if you just look at what we've done in the last 12 months and we're working on right now, to be able to have a really, really high capacity.

I think that said, when you look at what we have in front of us specifically right now, on beginning the Atria conversions and specifically getting ready for Commonwealth, building on Rich's point earlier, I think that the recruiting pipeline continues to be quite large. The dialogue continues to be quite good.

But I think from a timing standpoint, we're going to be quite focused on those two initiatives and doing those really, really well for those teams and those advisors. So I wouldn't expect any announcements of other large deals in the near term because I think we've got enough to focus on right now.

But that doesn't take away from the opportunity that we would have over the long term. It's more of a prioritization of the work that we have in front of us right now.

Operator

Benjamin Budish, Barclays.

Chris O'Brien - *Barclays - Analyst*

This is Chris O'Brien on for Ben. I wanted to hit on annuity sales. It looks like they've been pretty strong at LPL and we look at the LIMRA data, it looks like LPL is outperforming meaningfully. So, is there any way you can just tell us what you're seeing in terms of activity in annuity sales? And how much of this growth has been driven from the recent acquisitions?

Matthew Audette - *LPL Financial Holdings Inc - Chief Financial Officer, Principal Accounting Officer*

Yeah. I think on -- I mean we are a large distributor of annuities. So it's a strong part of our business. I think that when you just look at the trends, in this quarter, I think you've got two things going on.

One is bringing Prudential fully on board, right? A big part of their business is annuity sales, it is insurance. And I think when you see the trends in sales commissions and specifically annuities, just looking at this quarter, that's probably 3/4 of it, is really Prudential coming fully on board and ramped up on the platform.

And the other quarter is our core business. And I think it speaks to the diversification of serving and supporting both the advisory business and our brokerage business and being in an environment where, whether it be the volatility, the level of interest rates, whether it be variable annuities, fixed annuities, that's a product that matters and is relevant to a lot of our advisors' clients. I think we have that offering, I think that 25% of that growth is really just our overall client base wanting and needing and having those products.

That said, there is a macro driver in that. So as interest rates have leveled off, as volatility has started to come down, I wouldn't be surprised if sales commissions -- because they are primarily driven by those products, come down a bit in future quarters. But I think back to our core offering, it is a big part of our core offering. And as we grow the business with firms like Prudential, this is an area where you see those benefits come through.

Operator

That concludes our Q&A session. I will now turn the call back over to Mr. Steinmeier for closing remarks.

Rich Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer*

Thank you so much, operator, and thank you all for joining us. We look forward to speaking with you again in July. Have a great night.

Operator

That concludes today's call. Thank you all for joining. You may now disconnect.

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