

LPL Financial

Investor Presentation
Q4 2018

February 12, 2019

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, strategies, plans, priorities, and outlook, including forecasts and statements relating to the Company's future brokerage and advisory asset levels and mix, any future annual Gross Profit* benefit, future deposit betas, future Core G&A* expenses (including outlook for 2019), future technology investments (including outlook for 2019), future capital deployment, future leverage, future Gross Profit*, future use of advisory services and platforms, acquisition strategic benefits and anticipated improvements to the Company's performance, operating model, services or technologies as a result of its initiatives, programs, investments or strategic acquisitions, 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. These forward-looking statements are based on the Company's historical performance and its plans, estimates, and expectations as of February 12, 2019. Forward-looking statements are not guarantees that the future results, plans, intentions, or expectations expressed or implied by the Company will be achieved. Matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, legislative, regulatory, competitive, and other factors, which may cause actual financial or operating results, levels of activity, or the timing of events, to be materially different than those expressed or implied by forward-looking statements. Important factors that could cause or contribute to such differences include: changes in interest rates and fees payable by banks participating in the Company's cash sweep program; the Company's success and strategy in managing cash sweep program fees; changes in general economic and financial market conditions, including retail investor sentiment; fluctuations in the value of advisory and brokerage 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; changes in the number of the Company's financial advisors and institutions, and their ability to market effectively financial products and services; whether retail investors served by newly-recruited advisors choose to move their respective assets to a new account at the Company; changes in the growth and profitability of the Company's advisory services including the Company's centrally managed advisory platforms; the effect of current, pending and future legislation, regulation and regulatory actions, including disciplinary actions imposed by federal and state securities regulators and self-regulatory organizations; the costs of settling and remediating issues related to regulatory matters or legal proceedings including actual costs of repurchasing securities from investors in excess of our estimates; changes made to the Company's services and pricing, and the effect that such changes may have on the Company's Gross Profit* streams and costs; execution of the Company's plans and its success in realizing the synergies, expense savings, service improvements and efficiencies expected to result from its initiatives and/or programs, including as a result of the acquisition of AdvisoryWorld; and the other factors set forth in Part I, "Item 1A. Risk Factors" in the Company's 2017 Annual Report on Form 10-K, as may be amended or updated in the Company's 2018 Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q or other filings with the SEC. Except as required by law, the Company specifically disclaims any obligation to update any forward-looking statements as a result of developments occurring after February 12, 2019, even if its estimates change, and statements contained herein are not to be relied upon as representing the Company's views as of any date subsequent to February 12, 2019.

*Notice to Investors: Non-GAAP Financial Measures

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 some or all of 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. **Specific Non-GAAP financial measures have been marked with an * (asterisk) within this presentation. Management has also presented certain non-GAAP financial measures further adjusted to reflect the impact of the Company's acquisition of AdvisoryWorld and the broker-dealer network of National Planning Holdings, Inc. ("NPH"). Reconciliations and calculations of such measures can be found on page 34.**

Gross profit is calculated as net revenues, which were \$1,317 million for the three months ended December 31, 2018, less commission and advisory expenses and brokerage, clearing, and exchange fees ("BC&E"), which were \$793 million and \$16 million, respectively, for the three months ended December 31, 2018. All other expense categories, including depreciation and amortization of fixed assets and amortization of intangible assets, are considered general and administrative in nature. Because the Company's gross profit amounts do not include any depreciation and amortization expense, the Company considers its gross profit amounts to be non-GAAP financial measures that may not be comparable to those of others in its industry. Management believes that gross profit provides investors with useful insight into the Company's core operating performance before indirect costs that are general and administrative in nature. For a calculation of gross profit, please see page 33 of this presentation.

EPS Prior to Amortization of Intangible Assets is defined as GAAP EPS plus the per share impact of Amortization of Intangible Assets. The per share impact is calculated as Amortization of Intangible Assets expense, net of applicable tax benefit, divided by the number of shares outstanding for the applicable period. The Company presents EPS Prior to Amortization of Intangible Assets because management believes the metric can provide investors with useful insight into the Company's core operating performance by excluding non-cash items that management does not believe impact the Company's ongoing operations. EPS Prior to Amortization of Intangible Assets is not a measure of the Company's financial performance under GAAP and should not be considered as an alternative to GAAP EPS or any other performance measure derived in accordance with GAAP. For a reconciliation of EPS Prior to Amortization of Intangible Assets to GAAP EPS, please see page 37 of this presentation.

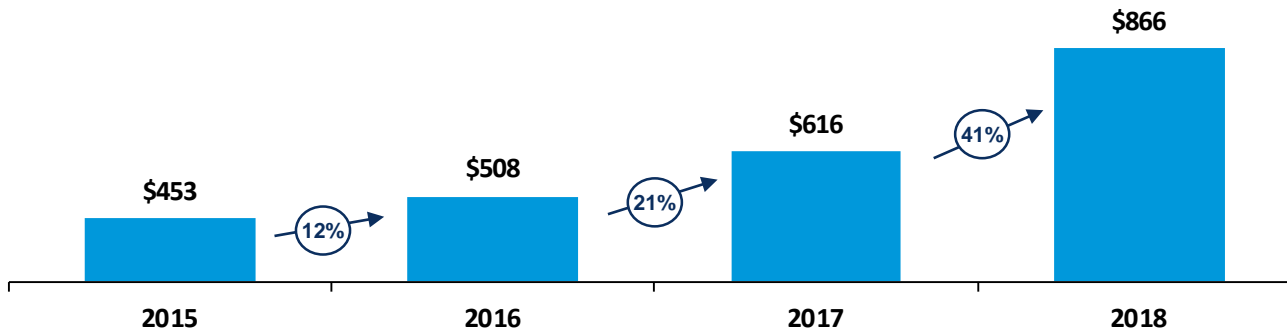
EBITDA is defined as net income plus interest expense, income tax expense, depreciation, amortization and loss on extinguishment of debt. The Company presents EBITDA because management believes that it can be a useful financial metric in understanding the Company's earnings from operations. EBITDA is not a measure of the Company's financial performance under GAAP and should not be considered as an alternative to net income or any other performance measure derived in accordance with GAAP, or as an alternative to cash flows from operating activities as a measure of profitability or liquidity. For a reconciliation of net income to EBITDA, please see page 35 of this presentation. In addition, the Company's EBITDA can differ significantly from EBITDA calculated by other companies, depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate, and capital investments.

Credit Agreement EBITDA is defined in, and calculated by management in accordance with, the Company's credit agreement (the "Credit Agreement") as "Consolidated EBITDA," which is Consolidated Net Income (as defined in the Credit Agreement) plus interest expense, tax expense, depreciation and amortization and further adjusted to exclude certain non-cash charges and other adjustments, including unusual or non-recurring charges and gains, and to include future expected cost savings, operating expense reductions or other synergies from certain transactions, including the NPH acquisition. The Company presents Credit Agreement EBITDA because management believes that it can be a useful financial metric in understanding the Company's debt capacity and covenant compliance under its Credit Agreement. Credit Agreement EBITDA is not a measure of the Company's financial performance under GAAP and should not be considered as an alternative to net income or any other performance measure derived in accordance with GAAP, or as an alternative to cash flows from operating activities as a measure of profitability or liquidity. For a reconciliation of net income to Credit Agreement EBITDA, please see page 36 of this presentation. In addition, the Company's Credit Agreement EBITDA can differ significantly from adjusted EBITDA calculated by other companies, depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate, capital investments, and types of adjustments made by such companies.

Core G&A consists of total operating expenses, excluding the following expenses: commission and advisory, regulatory charges, promotional, employee share-based compensation, depreciation and amortization, amortization of intangible assets, and brokerage, clearing, and exchange. Management presents Core G&A because it believes Core G&A reflects the corporate operating expense categories over which management can generally exercise a measure of control, compared with expense items over which management either cannot exercise control, such as commission and advisory expenses, or which management views as promotional expense necessary to support advisor growth and retention including conferences and transition assistance. Core G&A is not a measure of the Company's total operating expenses as calculated in accordance with GAAP. For a reconciliation of Core G&A to the Company's total operating expenses, please see page 34 of this presentation. The Company does not provide an outlook for its total operating expenses because it contains expense components, such as commission and advisory expenses, that are market-driven and over which the Company cannot exercise control. Accordingly a reconciliation of the Company's outlook for Core G&A to an outlook for total operating expenses cannot be made available without unreasonable effort. Prior to 2016, the Company calculated Core G&A as consisting of total operating expenses, excluding the items described above, as well as excluding other items that primarily consisted of acquisition and integration costs resulting from various acquisitions and organizational restructuring and conversion costs. Beginning with results reported for Q1 2016, Core G&A was presented as including these items that were historically adjusted out.

LPL Overview

Mission	Key Markets and Services	Q4 2018 Metrics																																																
<p>We take care of our advisors so they can take care of their clients</p>	<p>~\$630B Retail Assets:</p> <ul style="list-style-type: none"> • Brokerage: \$346B • Corporate Advisory: \$172B • Hybrid Advisory: \$110B <p>16K+ advisors:</p> <ul style="list-style-type: none"> • Independent Advisors: 8,500+ • Hybrid RIA: 5,000+ (420+ firms) • Institutional Services: 2,500+ (800+ banks, credit unions, and clearing clients) 	<table border="0"> <tr> <td colspan="2">Q4 Business Metrics</td> <td colspan="2">LTM Financial Metrics</td> </tr> <tr> <td>Assets:</td> <td>\$628B</td> <td>Average Assets:</td> <td>\$656B</td> </tr> <tr> <td>Recruited Assets⁽²⁾:</td> <td>\$8.6B</td> <td>Gross Profit*:</td> <td>\$1.9B</td> </tr> <tr> <td>Advisors:</td> <td>16,109</td> <td>EBITDA*:</td> <td>\$866M</td> </tr> <tr> <td>Accounts:</td> <td>5.4M</td> <td>EPS Prior to</td> <td></td> </tr> <tr> <td>Employees:</td> <td>4,229</td> <td>Intangible Assets*:</td> <td>\$5.33</td> </tr> <tr> <td colspan="2">Q4 Debt Metrics</td> <td colspan="2">Ratings & Outlooks</td> </tr> <tr> <td>Credit Agr.</td> <td></td> <td>S&P Rating:</td> <td>BB</td> </tr> <tr> <td>EBITDA (TTM)*:</td> <td>\$969M</td> <td>S&P Outlook:</td> <td>Positive</td> </tr> <tr> <td>Total Debt:</td> <td>\$2.4B</td> <td>Moody's Rating:</td> <td>Ba3</td> </tr> <tr> <td>Cost of Debt:</td> <td>5.12%</td> <td>Moody's Outlook:</td> <td>Positive</td> </tr> <tr> <td>Net Leverage Ratio⁽³⁾:</td> <td>2.15x</td> <td></td> <td></td> </tr> </table>	Q4 Business Metrics		LTM Financial Metrics		Assets:	\$628B	Average Assets:	\$656B	Recruited Assets ⁽²⁾ :	\$8.6B	Gross Profit*:	\$1.9B	Advisors:	16,109	EBITDA*:	\$866M	Accounts:	5.4M	EPS Prior to		Employees:	4,229	Intangible Assets*:	\$5.33	Q4 Debt Metrics		Ratings & Outlooks		Credit Agr.		S&P Rating:	BB	EBITDA (TTM)*:	\$969M	S&P Outlook:	Positive	Total Debt:	\$2.4B	Moody's Rating:	Ba3	Cost of Debt:	5.12%	Moody's Outlook:	Positive	Net Leverage Ratio ⁽³⁾ :	2.15x		
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<p align="center">LTM EBITDA* History (\$ millions)</p>																																																		



We remain focused on growth and execution to create long-term shareholder value

Grow our Core Business

- + Leverage the strength of our markets and model**
 - Capitalize on secular trends
 - Expand leadership positions
- + Enhance advisor experience and capabilities**
 - Deliver best-in-class service, compliance, and technology
 - Expand advisory, custodial, research, and retail investor solutions
- + Drive organic asset and gross profit* growth**
 - Increase advisor recruiting, productivity, and retention
 - Leverage scale to expand gross profit*
- + Benefit from rising rates and markets**
 - Capture cash sweep upside from rising rates
 - Grow assets as market levels rise

= Asset and gross profit* growth



Execute with Excellence

- + Drive greater efficiency and productivity**
 - Continuously improve over time
 - Prioritize growth investment opportunities
- + Embed quality and innovation in our operations**
 - Create extraordinary service and technology outcomes
 - Ongoing improvements in our operations over time
- + Balance financial strength and flexibility**
 - Keep capital structure strong and flexible for changes to environment and strategic opportunities
 - Allocate capital to create long-term shareholder value
- + Increase investor understanding and confidence**
 - Expand and clarify key disclosures
 - Deliver strong results

= Operating leverage and capital allocation



Create Long-Term Shareholder Value

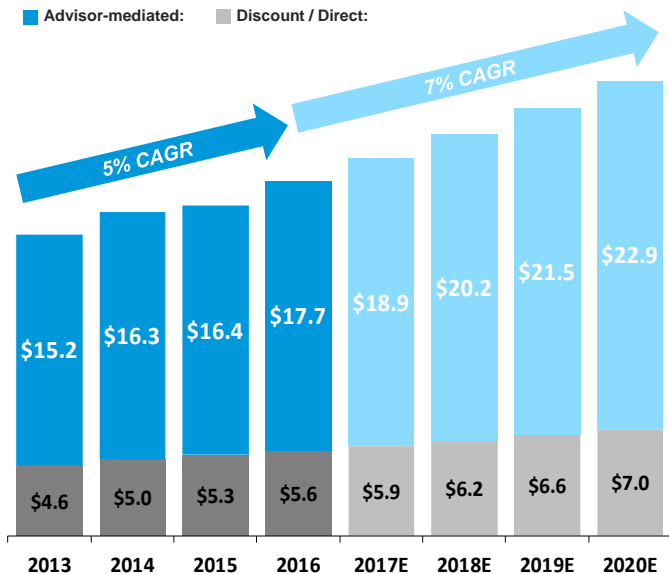
LPL Investment Highlights: Significant opportunities to grow and create long-term shareholder value

- 1 Attractive market with secular industry tailwinds**
- 2 Established market leader with scale advantages**
- 3 Organic growth opportunities through net new assets and ROA**
- 4 Positively levered to rising interest rates and equity markets**
- 5 Disciplined expense management driving operating leverage**
- 6 Capital light business model with significant capacity to deploy**
- 7 Opportunity to consolidate fragmented core markets through M&A**

Demand for financial advice is growing, and the independent channel is gaining share

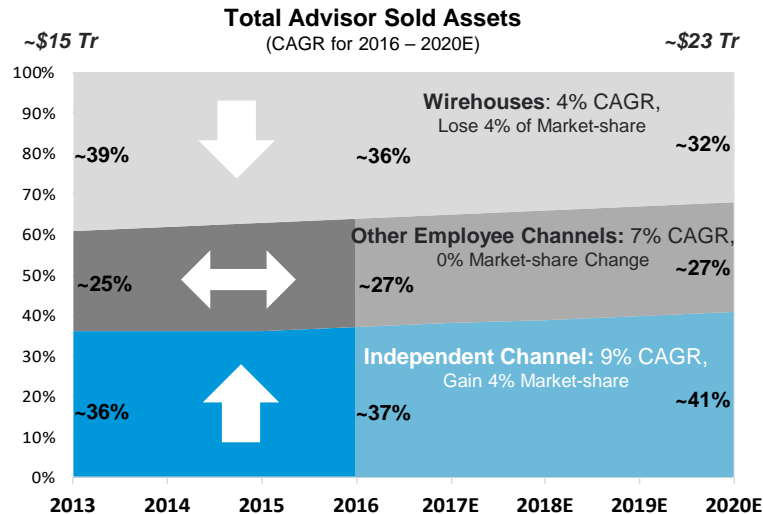
Growing demand for advice

Projected Growth in US Retail Investment Market (\$T)



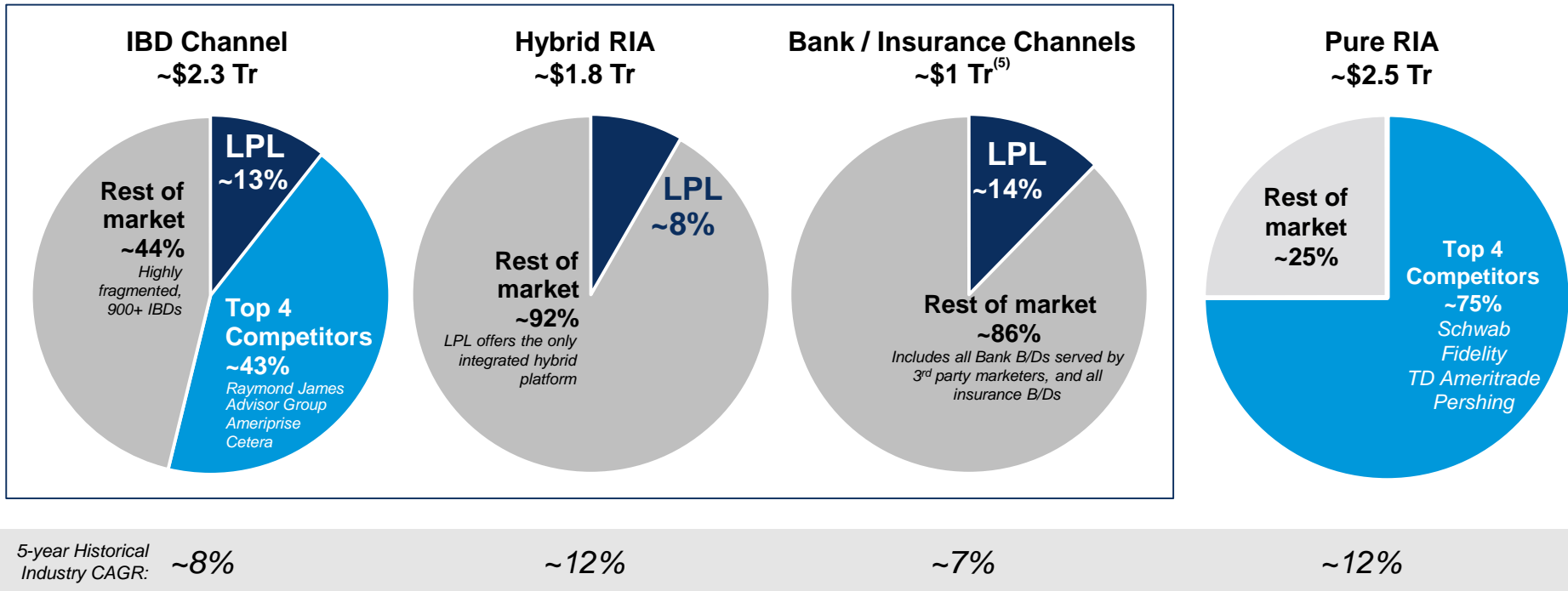
Trend towards independence expected to continue

The Independent channel continues to gain share versus employee models



We are a leader in our core markets and have room to grow

Our Core Markets⁽⁴⁾



Total Net New Assets continued to grow organically in Q4 2018

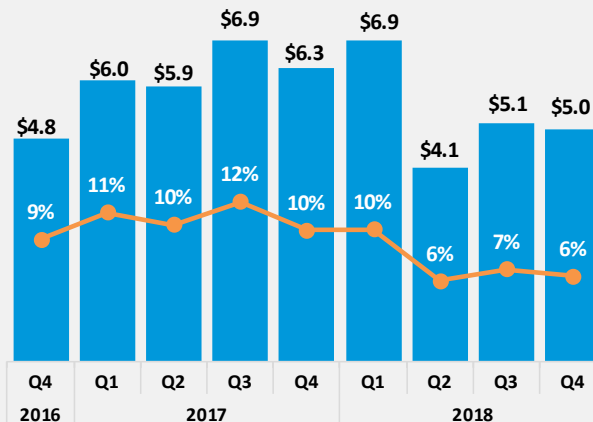
Total Net New Assets (\$ billions)

■ Organic Total NNA
— Organic Annualized Growth Rate



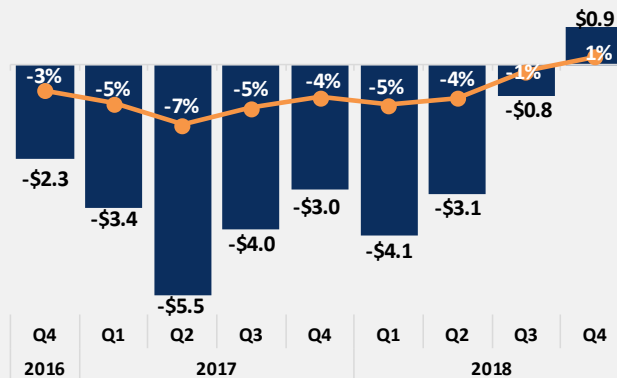
Net New Advisory Assets⁽⁶⁾ (\$ billions)

■ Organic Advisory NNA
— Organic Annualized Growth Rate



Net New Brokerage Assets⁽⁷⁾ (\$ billions)

■ Organic Brokerage NNA
— Organic Annualized Growth Rate



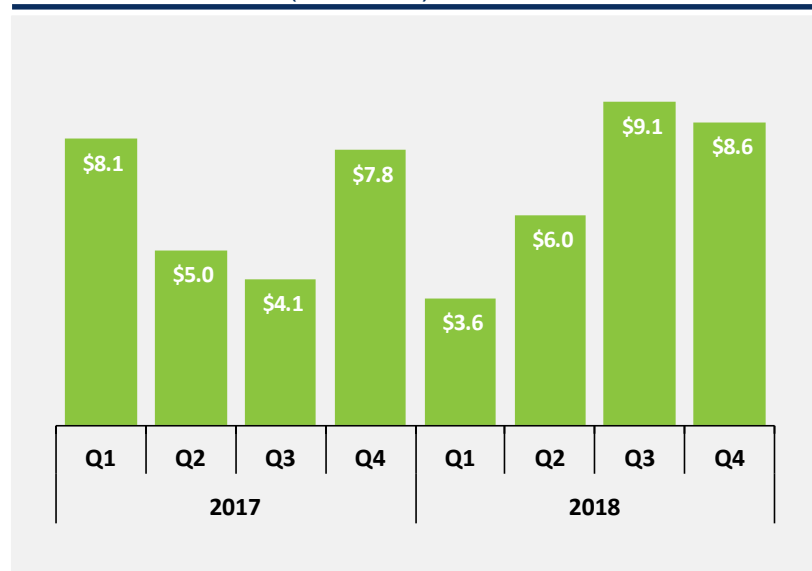
Net Brokerage to Advisory Conversions (billions)⁽⁸⁾: \$1.7 \$2.3 \$2.0 \$1.9 \$2.1 \$2.5 \$1.8 \$1.7 \$1.4

Note: numbers shown on this page are prior to asset flows from NPH.

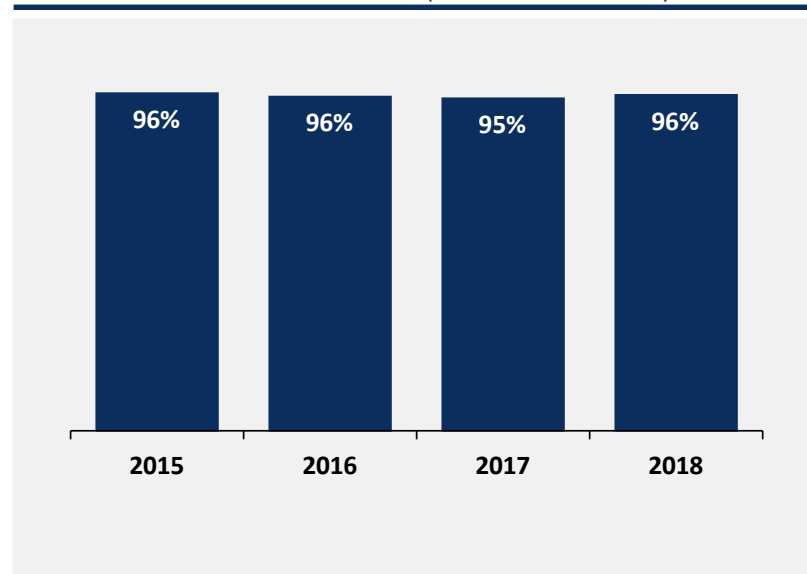
Q3 2018 includes \$2.4 billion of outflows (of which \$1.5 billion was advisory) and Q4 2018 includes \$0.7 billion of outflows (of which \$0.3 billion was advisory) from a small number of hybrid firms, consistent with the Company's expectations as discussed on its Q2 and Q3 2018 earnings calls.

Increased recruiting and continued solid retention helped to drive greater organic growth

Recruited Assets⁽²⁾ (\$ billions)



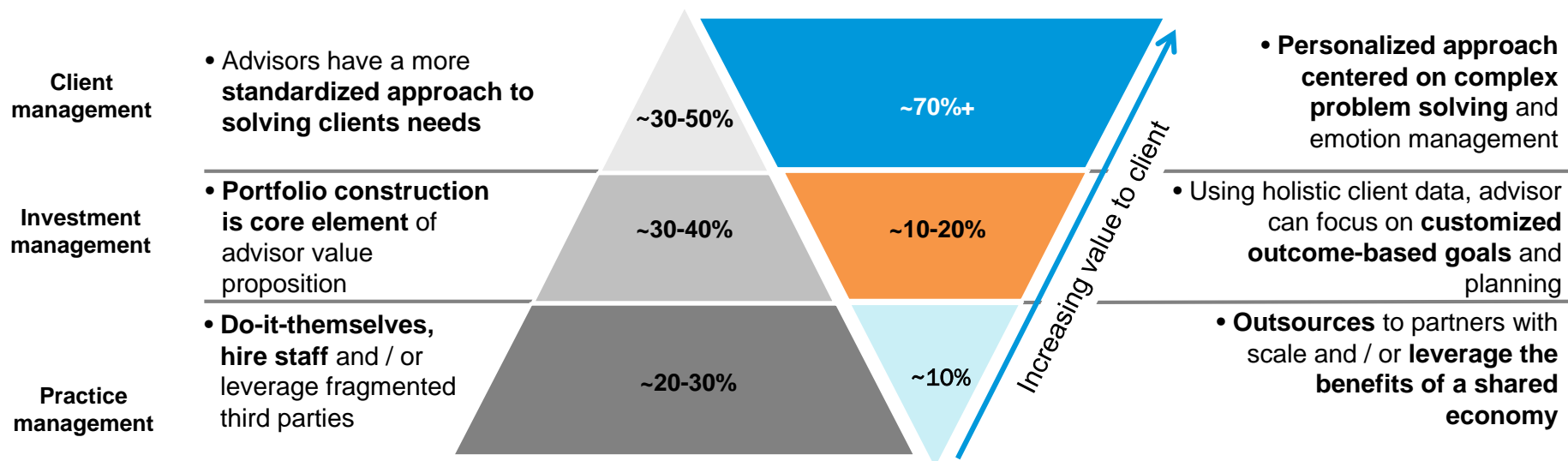
Production Retention Rate⁽⁹⁾ (YTD Annualized)



We expect evolution in the future profile of winning advisor practices

Today: Advisor as wealth manager

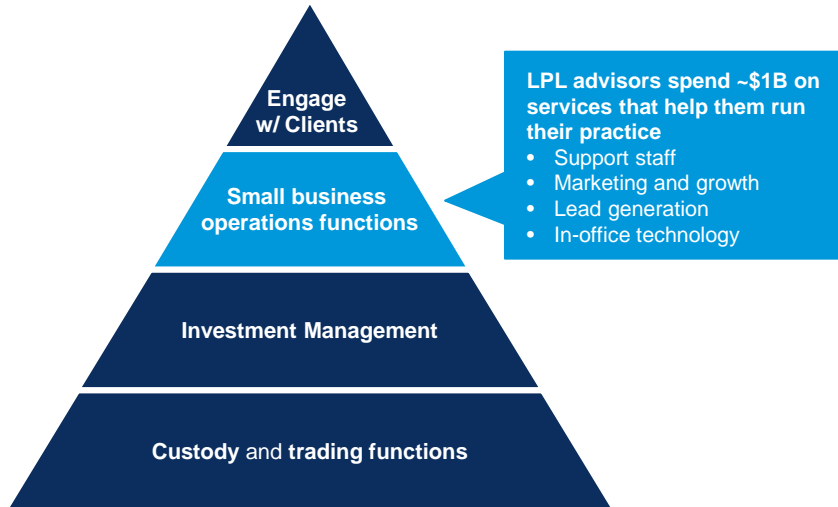
Tomorrow: Advisor as personal CFO



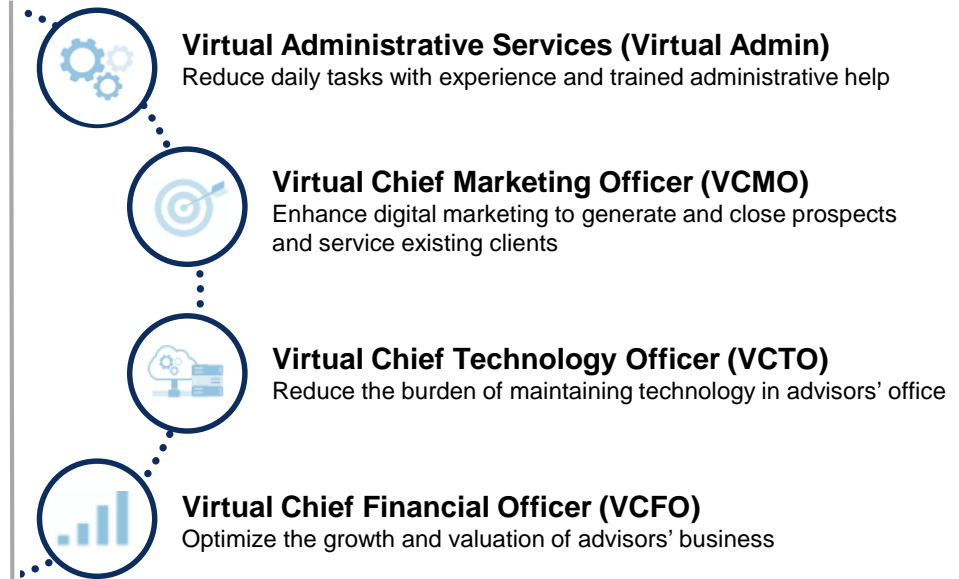
Illustrative allocation of advisors' time

We are leveraging technology and our scale to bring innovation and enhanced performance to the front office

Development of New LPL Front Office Services



We are developing Virtual Services that enable efficiency and support growth

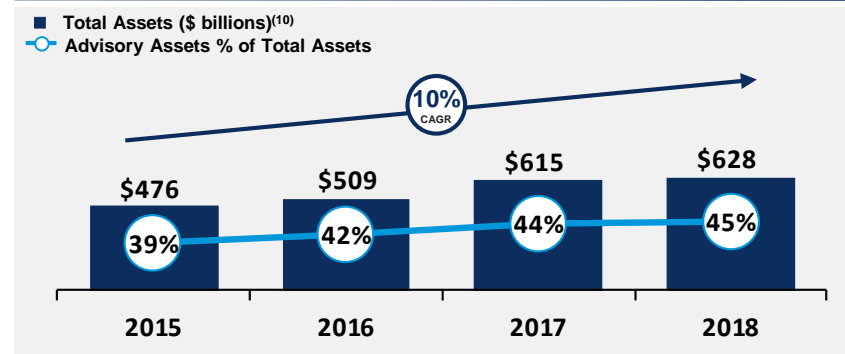


Our business continues to shift from brokerage to advisory

Key points

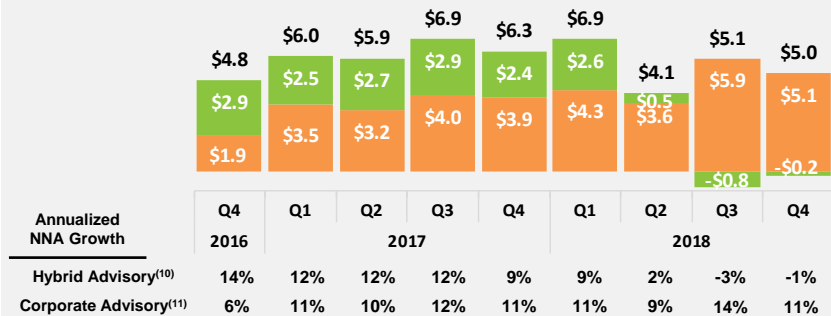
- Our business has been shifting from Brokerage to Advisory, consistent with industry trends
- While the pace of our mix shift has increased, our average is still below industry levels
- Advisory ROA is ~10 bps higher than Brokerage ROA

Total assets have grown and shifted to advisory

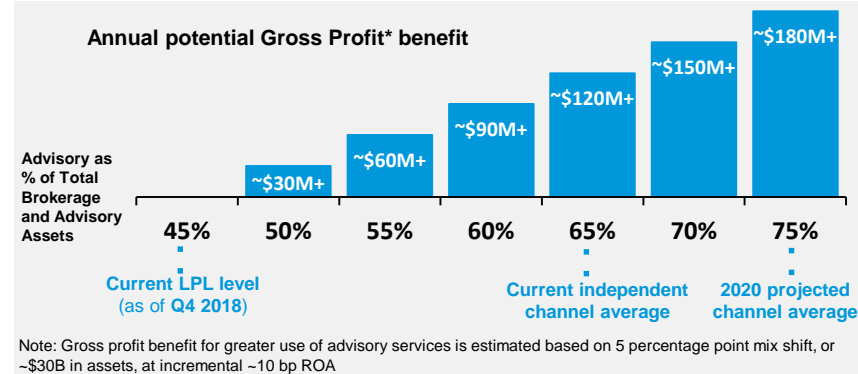


Corporate platform has now been driving most advisory growth

- Organic Hybrid Advisory NNA ⁽¹¹⁾
- Organic Corporate Advisory NNA ⁽¹²⁾



Greater use of advisory services could drive value



Note: Q3 2018 includes \$2.4 billion of outflows (of which \$1.5 billion was advisory) and Q4 2018 includes \$0.7 billion of outflows (of which \$0.3 billion was advisory) from a small number of hybrid firms, consistent with the Company's expectations as discussed on its Q2 and Q3 2018 earnings calls.

Centrally managed services have grown organically following pricing and capability enhancements

Key points

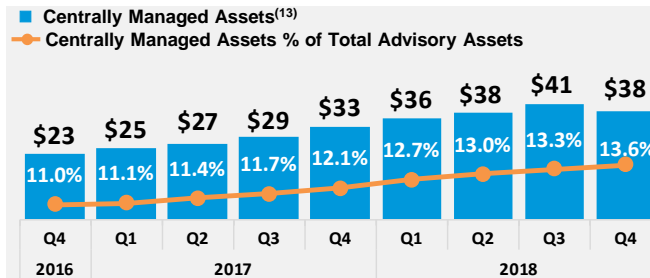
- Centrally managed platforms enable our advisors to outsource portfolio construction and trading to us, which can free up time to serve clients and grow their practices
- Inflows have increased to a ~2% annual increase as a percentage of total advisory assets
- Centrally managed ROA is ~10 bps higher than Advisory overall

Organic growth has picked up

- Organic Centrally Managed NNA⁽¹⁴⁾
- Organic Annualized Growth Rate⁽¹⁴⁾



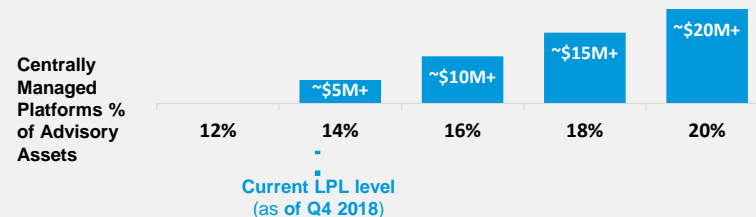
Centrally managed assets have grown



~\$15B growth in centrally managed assets over the past 2 years at ~10 bps has generated ~\$15M upside in annual gross profit*

Greater use of centrally managed services can create value

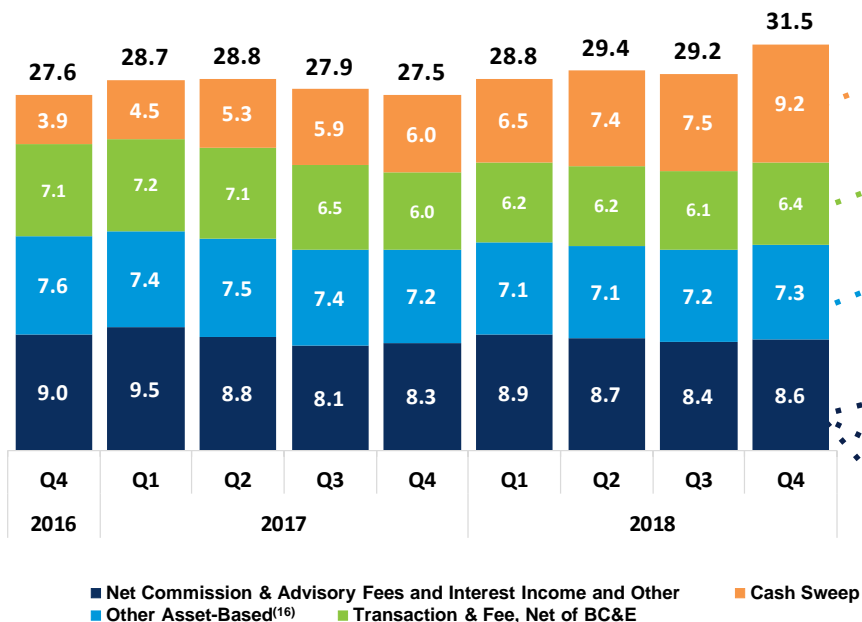
Annual potential Gross Profit* benefit



Note: Gross Profit* benefit for greater use of centrally managed platforms has been estimated based on 2 percentage point mix shift, or ~\$5B in assets, at an incremental ~10 bps ROA

We are focused on driving growth in organic gross profit ROA

While cash sweep has been the primary driver of our Gross Profit* ROA ⁽¹⁵⁾ ...



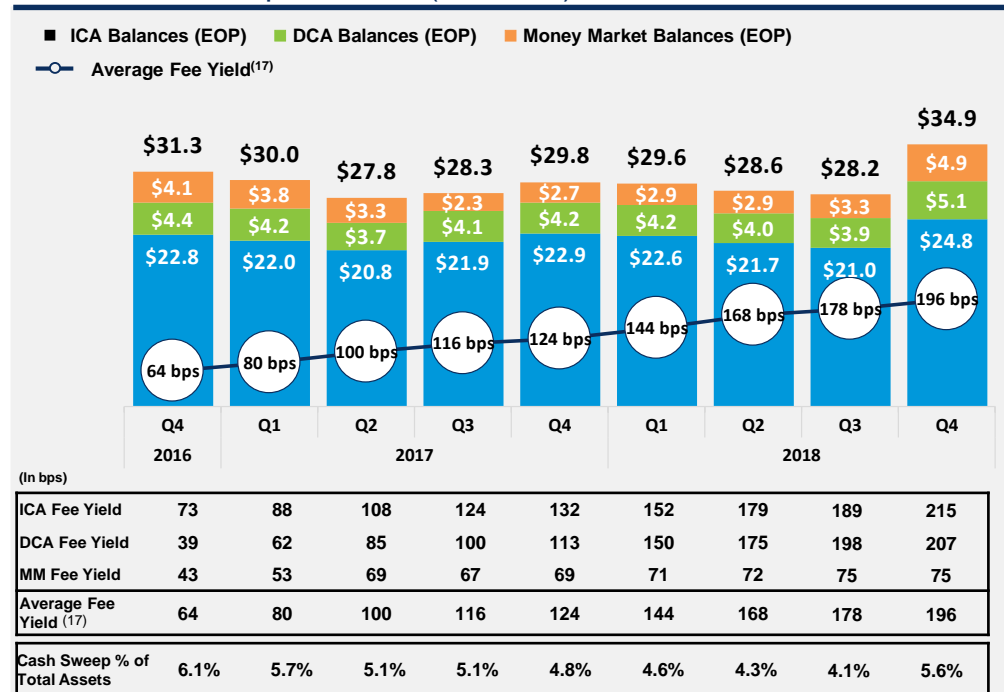
...We have opportunities to continue driving organic growth going forward

- Cash Sweep Offerings**
(e.g. deposit betas in the 25-50% range, extending ICA duration)
- Modernize Practice Management**
(e.g. virtual services)
- Asset Custody**
(e.g. sponsor programs, centrally managed platforms)
- Advisory Services**
(e.g. secular brokerage to advisory trend, streamlined conversion process)
- Portfolio Construction**
(e.g. centrally managed, separately managed, Guided Wealth Portfolios)
- Risk Management**
(e.g. aligning corporate and hybrid platforms with the marketplace)

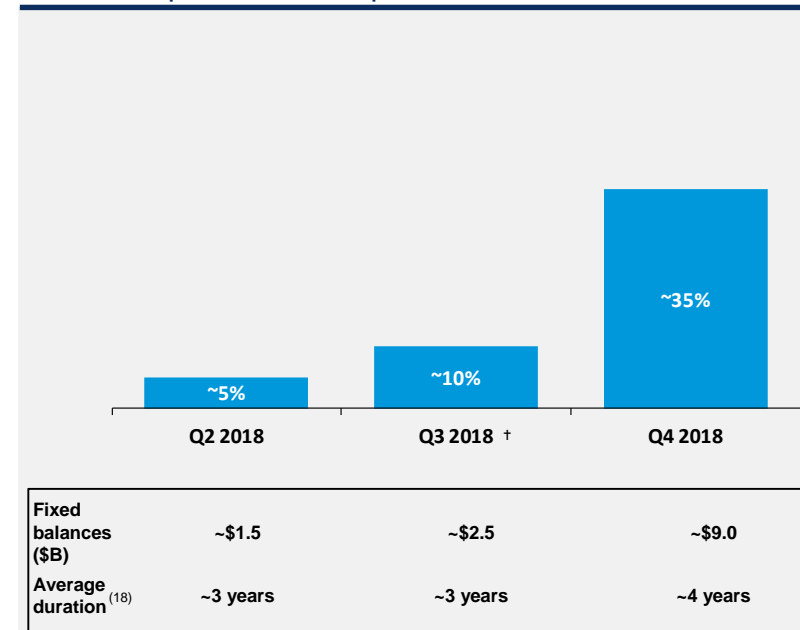
Note: updated bars combine Net Commission & Advisory Fees and Interest Income and Other

Cash sweep balances grew 24% in Q4, and we increased fixed rate balances to ~35% of the ICA portfolio

Client Cash Sweep balances (\$ billions)



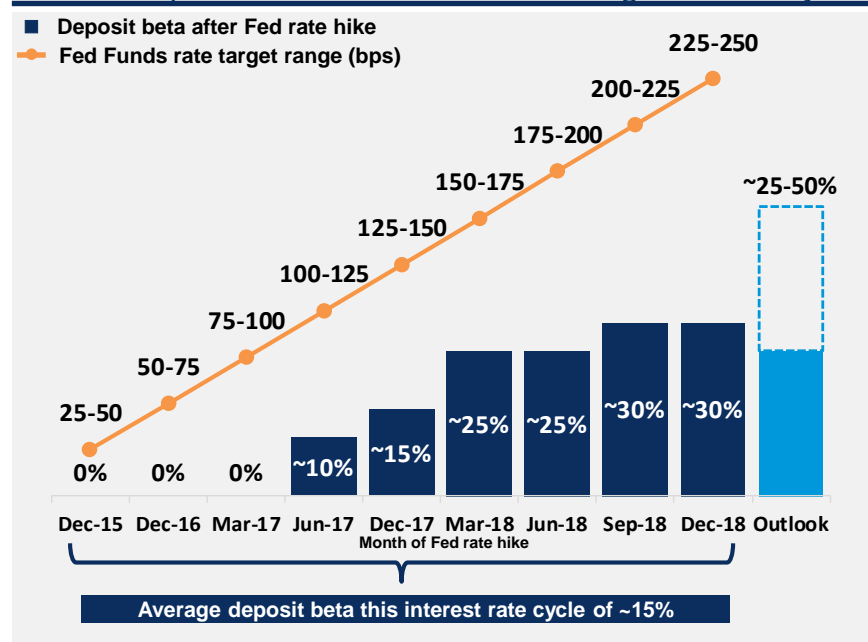
Fixed rate portion of ICA portfolio



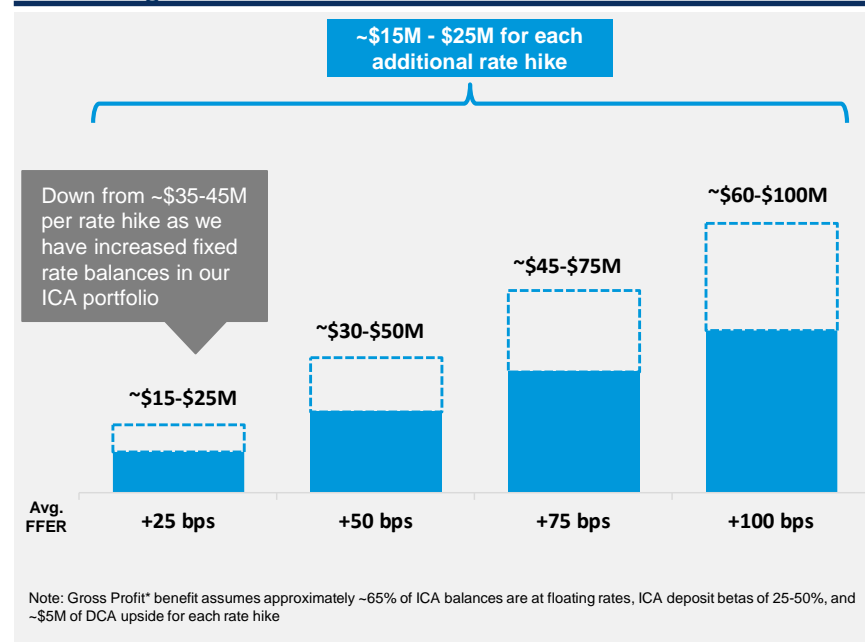
† Reflects fixed rate ICA contracts executed in Q3 2018, and the balances moved in early Q4 2018.

We benefit from rising interest rates

Our ICA deposit betas have been low through this rate cycle



Our outlook translates to potential annual Gross Profit* benefit on floating rate ICA balances from future rate hikes

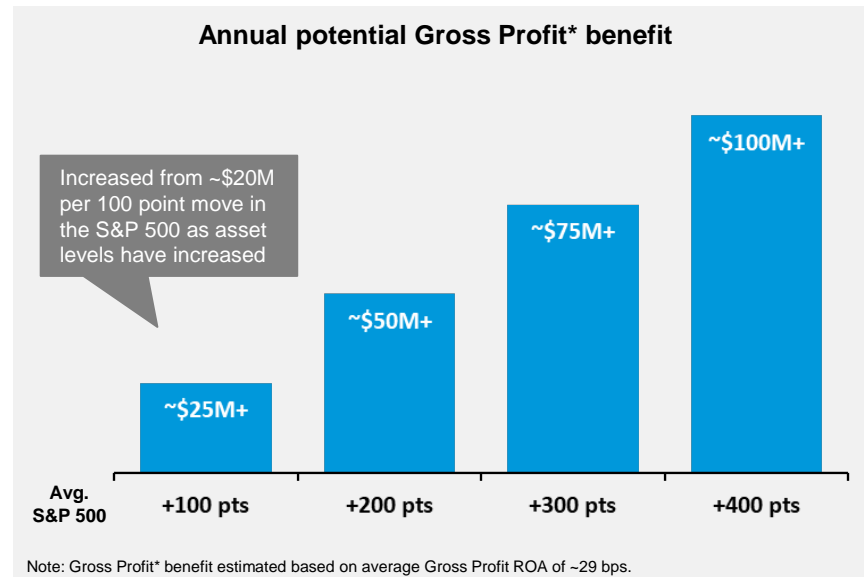


We also benefit from rising market levels

Key points

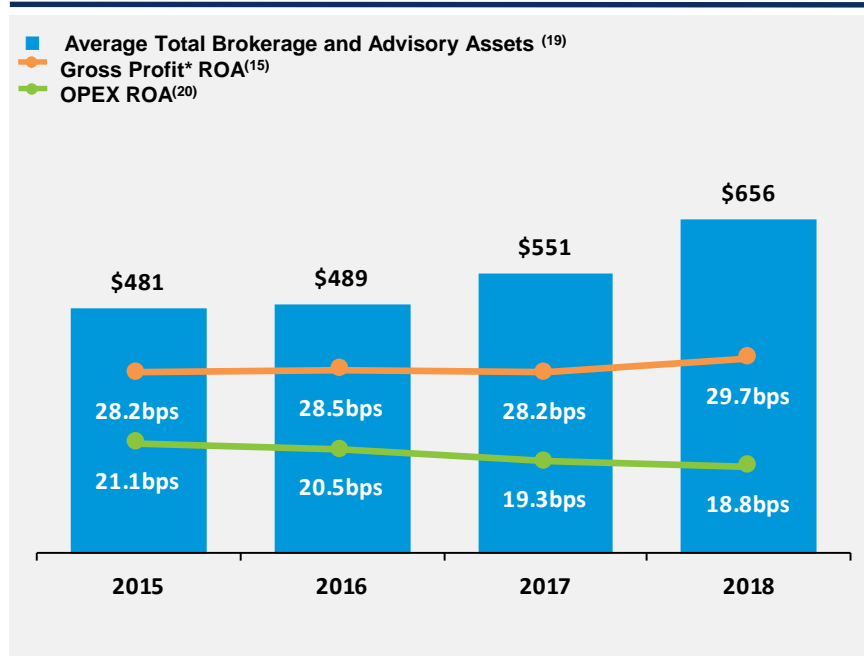
- In 2018, we averaged ~\$650B of total brokerage and advisory assets, up ~\$100B from the prior year
- Our product mix leads to assets with ~60% correlation to movements in the equity market levels
- Additionally, our Gross Profit* is ~50% equity market-sensitive, with the rest driven by interest rates, trading, and other capabilities

S&P growth benefits our Gross Profit*

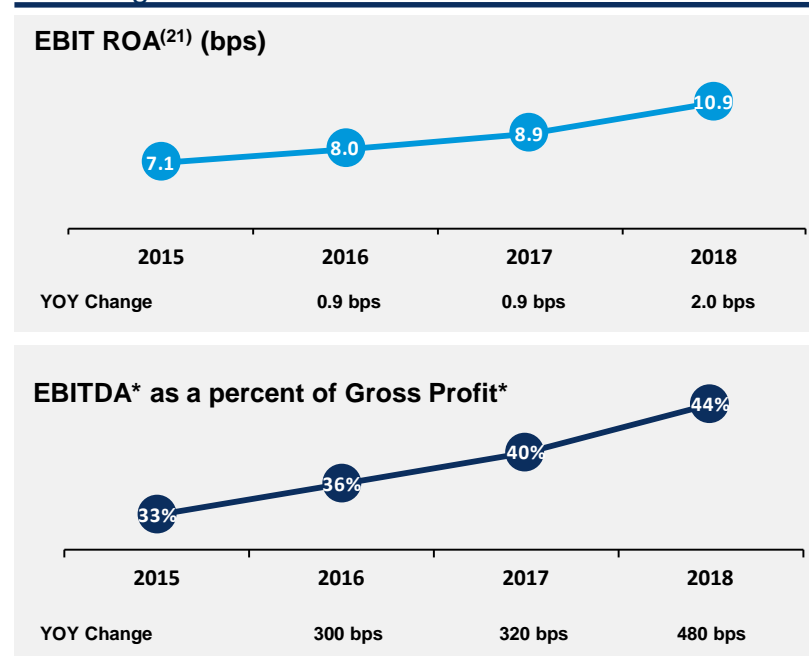


We are focused on generating operating leverage

In 2018, Gross Profit ROA increased, and OPEX ROA continued to decline



This operating leverage has driven improved returns and margins



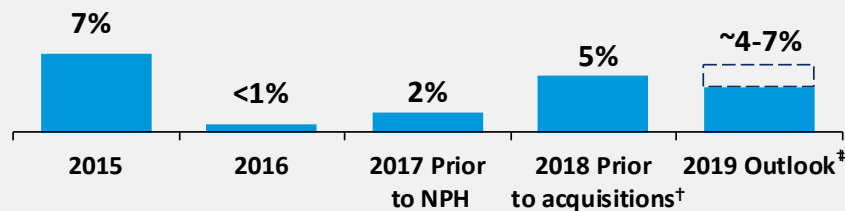
We plan to continue investing for growth in 2019

Long-term cost strategy

- Focus on delivering operating leverage
- Prioritize investments that drive organic growth
- Drive productivity and efficiency
- Adapt cost trajectory as environment evolves

Lower recent expense trajectory, prior to acquisitions

Annual Core G&A* Growth



Core G&A* context

- 2018 Core G&A was \$819M, including \$2M related to AdvisoryWorld
- Our original 2019 Core G&A* outlook range was \$845 to \$870M, or ~3.5 to 6.5% year-over-year growth
- Following our acquisition of AdvisoryWorld, we anticipate ~\$5M of related Core G&A* expense in 2019
- As a result, we updated our 2019 Core G&A* outlook range to \$850 to \$875M, or ~4 to 7% year-over-year growth

Core G&A* outlook

Original 2019 Outlook: \$845 to \$870 million

AdvisoryWorld + \$5 million

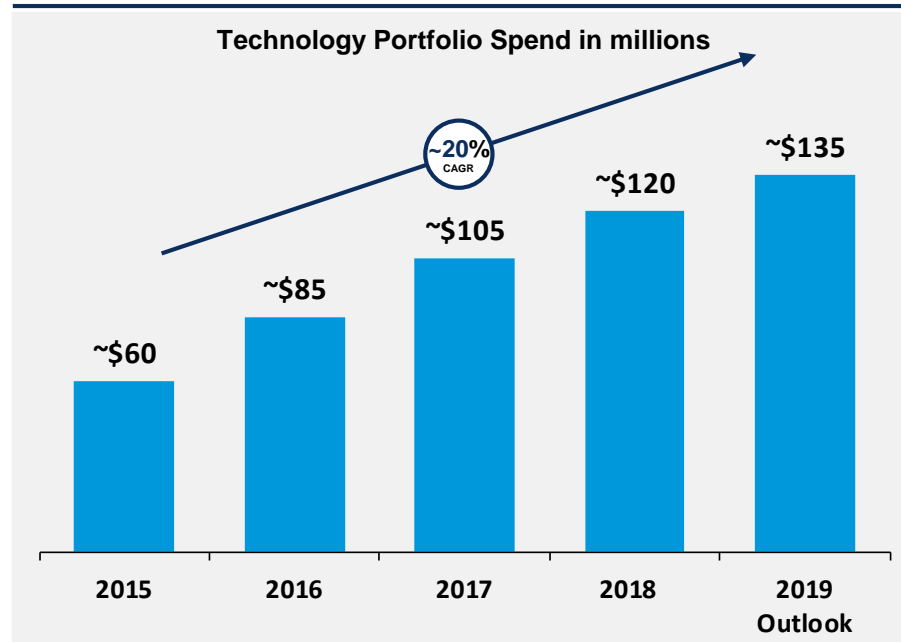
Updated 2019 Outlook: \$850 to \$875 million

† Based on the Company's 2018 Core G&A* prior to NPH and AdvisoryWorld related expenses compared to the Company's 2017 Core G&A prior to NPH-related expenses.

‡ Based on the Company's total 2018 Core G&A

We have increased investments in technology to drive growth

Technology investment has been growing ~20% per year



Strategic Context

- Our technology investments help deliver new capabilities to help advisors grow their businesses as well as enhancements to ClientWorks, our core operating platform
- We believe investments to drive organic growth are one of the best uses of our capital, and technology investment is a key part of our efforts

We acquired AdvisoryWorld to accelerate the delivery of digital capabilities to help advisors grow and increase efficiency

AdvisoryWorld is a leading provider of digital tools for advisors

- **Provides scalable workflows** that help advisors be more effective and efficient in acquiring new clients and managing existing relationships, including:
 - **Proposal Generation**
 - **Investment Analytics**
 - **Portfolio Modeling**
- **Serves more than 30,000 U.S. financial advisors and institutions**

Acquisition strategic benefits

- **Drives organic growth** by helping advisors win new clients and manage existing clients
- **Supports delivery of end-to-end technology solution** by adding best-in-class proposal generation capabilities
- **Accelerates technology delivery** vs. developing internally

AdvisoryWorld serves a broad cross-section of the advice market

Customers & Integration Partners

Key
Customers



Key Integration
Partners



Financial considerations

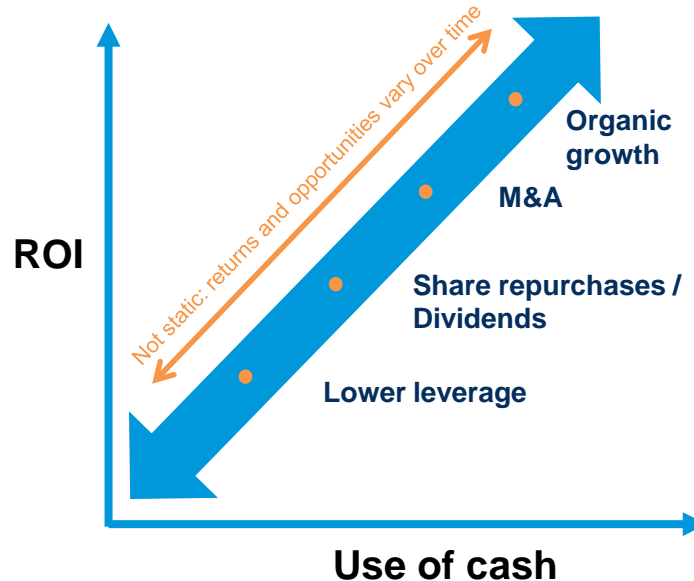
- **Transaction signed and closed on December 3rd, 2018**
- **Purchase price of \$28 million** as a single payment, funded with cash available for corporate use

Our capital management strategy is focused on driving growth and maximizing shareholder value

Our capital management principles

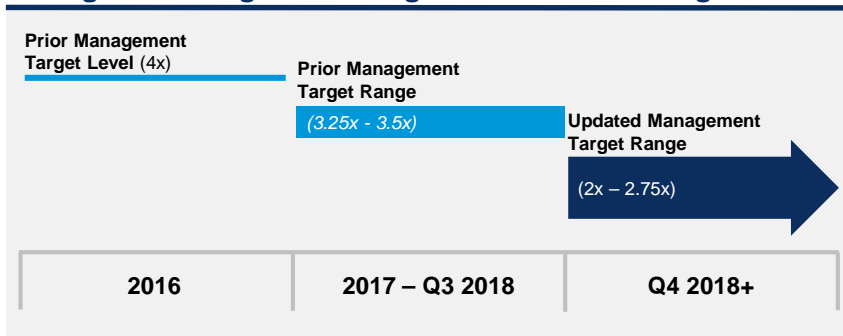
- **Disciplined capital management to drive long-term shareholder value**
- **Maintain a strong and flexible balance sheet**
 - Management target net leverage ratio range of 2x to 2.75x
 - Debt structure was refinanced to be more flexible and support growth
- **Prioritize investments that drive organic growth**
 - Recruiting to drive net new assets
 - Capability investments to add net new assets and drive ROA
- **Position ourselves to take advantage of M&A**
 - Potential to consolidate fragmented core market
 - Stay prepared for attractive opportunities
- **Return excess capital to shareholders**
 - Share repurchases
 - Dividends

Dynamic capital allocation across options

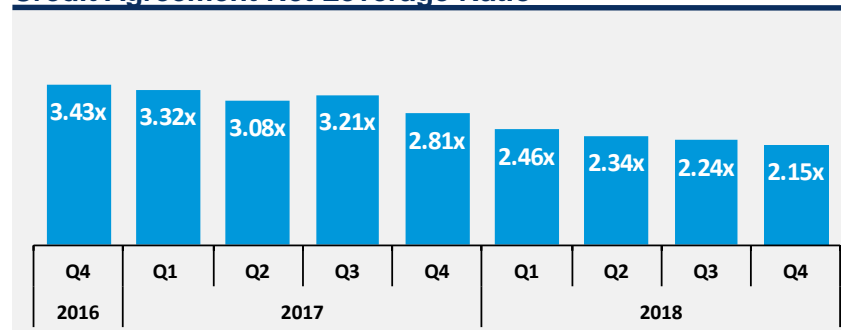


Our balance sheet strength is a key driver of our organic growth

Management Target Credit Agreement Net Leverage Ratio[†]



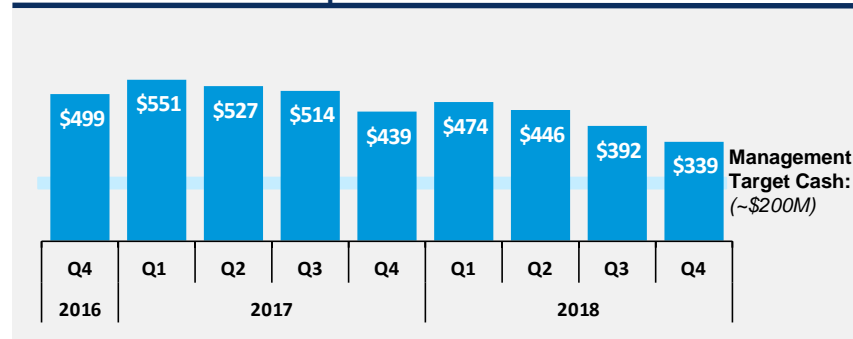
Credit Agreement Net Leverage Ratio



Management Target Range Context

- As we move deeper into the interest rate cycle, we are positioning our balance sheet to absorb a market downturn and still have the capacity to invest for growth
- As our leverage ratio was ~2.2x as of September 30, 2018, we lowered our target range to 2x to 2.75x in Q4 2018
- We are willing to operate temporarily above this range if attractive M&A opportunities arise

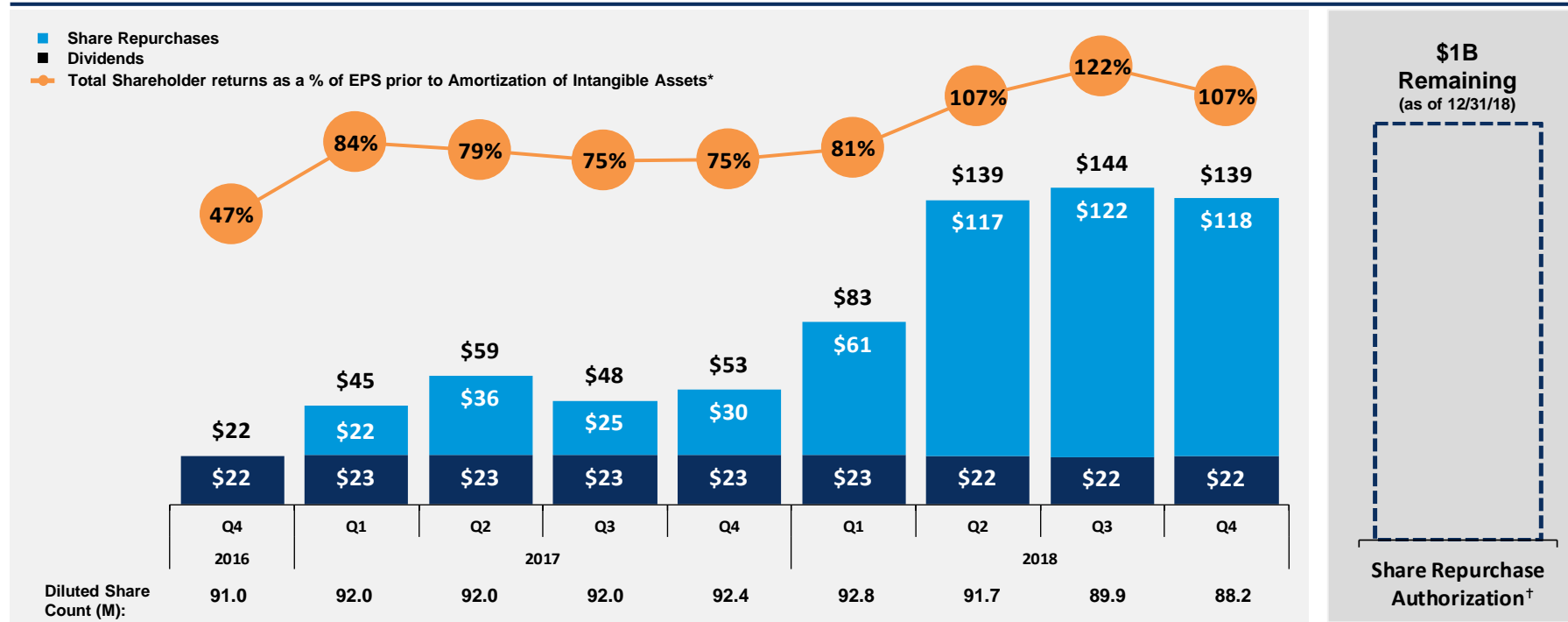
Cash Available for Corporate Use



[†] Note that the Credit Agreement Net Leverage Ratio only applies to the Company's revolving credit facility, which was undrawn as of December 31, 2018

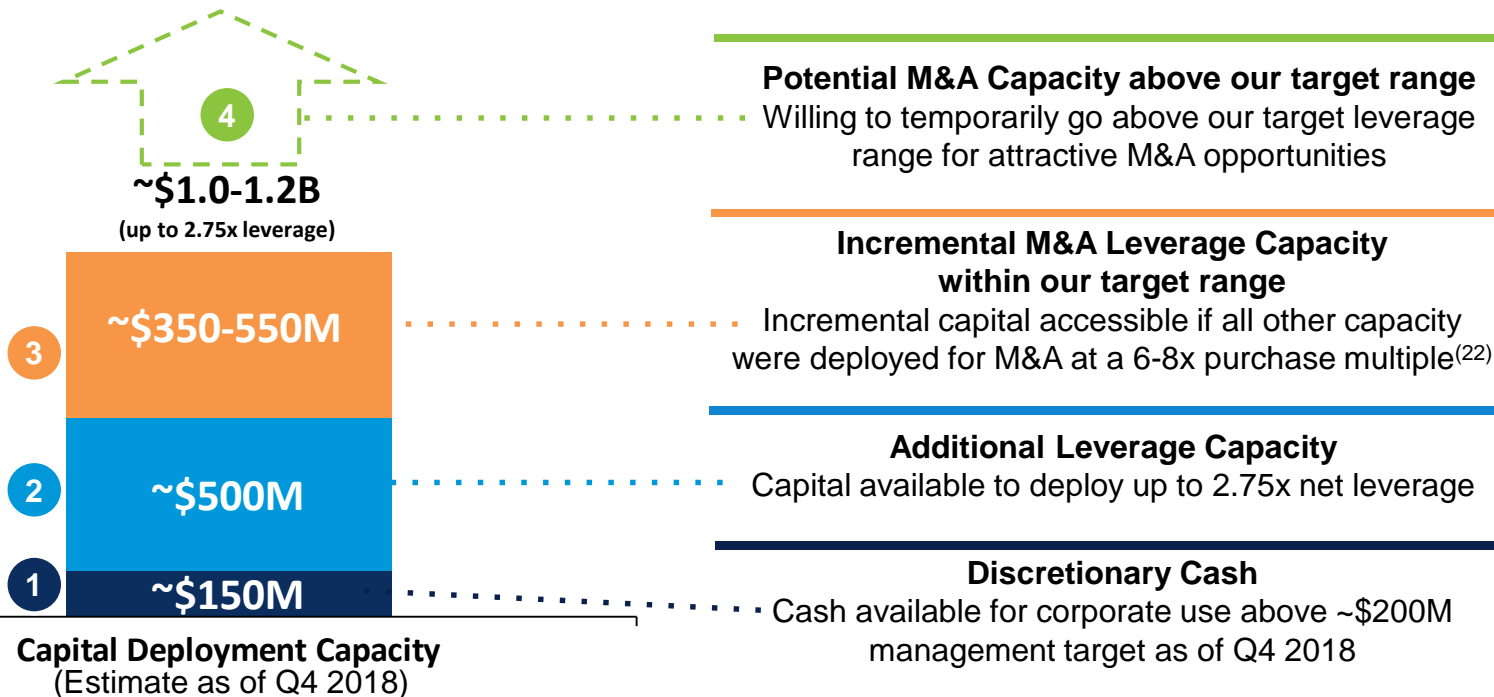
We have increased capital returns over time and recently increased our share repurchase authorization to \$1 billion

Shareholder Capital Returns (\$ millions)



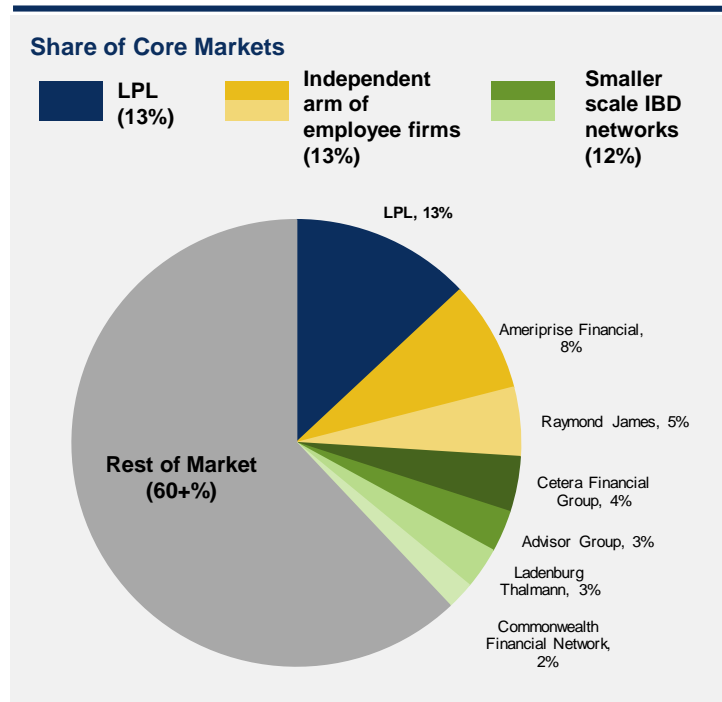
† Increased share repurchase authorization to \$1B as of December 31, 2018

We have a significant amount of capital deployment capacity



Our core markets are fragmented, with potential for consolidation

Fragmented core markets

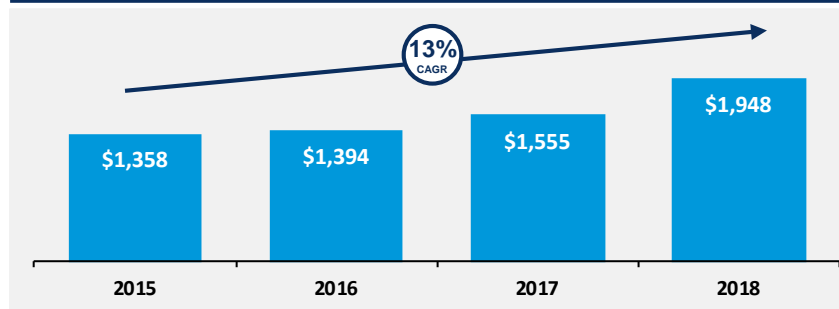


Growth potential from consolidation

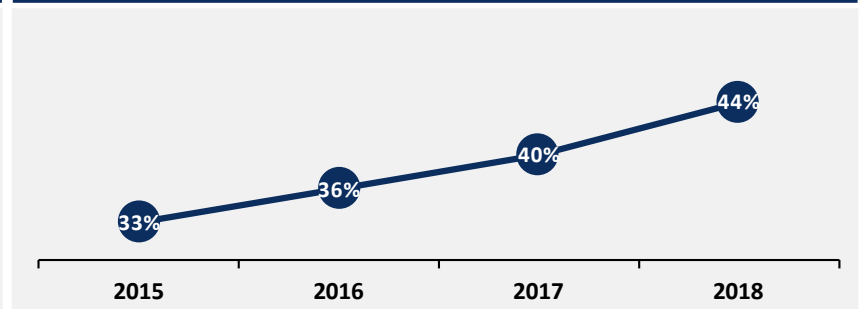
- Our scale, capabilities, and economics give us **competitive advantages in M&A**
- Our **core markets are fragmented**, with the top ~7 players comprising ~40% of the market
- **Rising cost and complexity** is making it **harder for smaller players** to compete
- Therefore, **we believe consolidation can drive value** by adding scale, increasing our capacity to invest in capabilities, and creating shareholder value
- NPH is a good example of the **potential for future accretive M&A**, so we plan to remain positioned for opportunities that may arise

We are focused on executing our strategy and delivering results

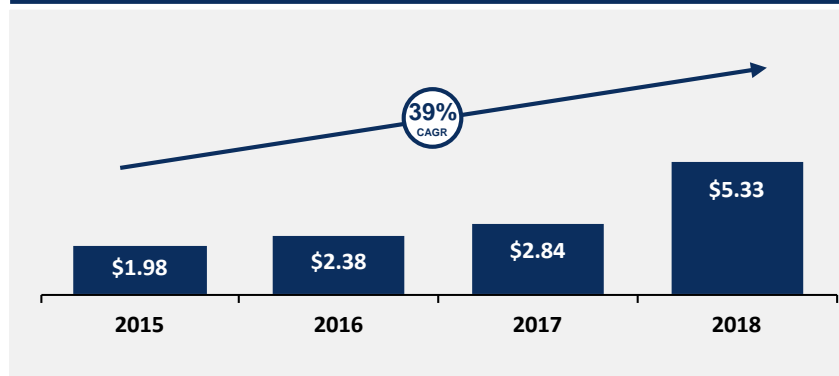
Gross Profit (\$ millions)



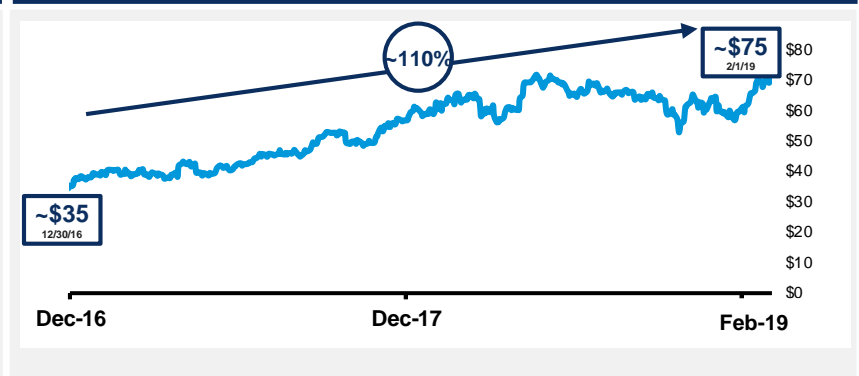
EBITDA* as a percent of Gross Profit*



EPS Prior to Amortization of Intangible Assets* (\$)



LPLA Stock Price



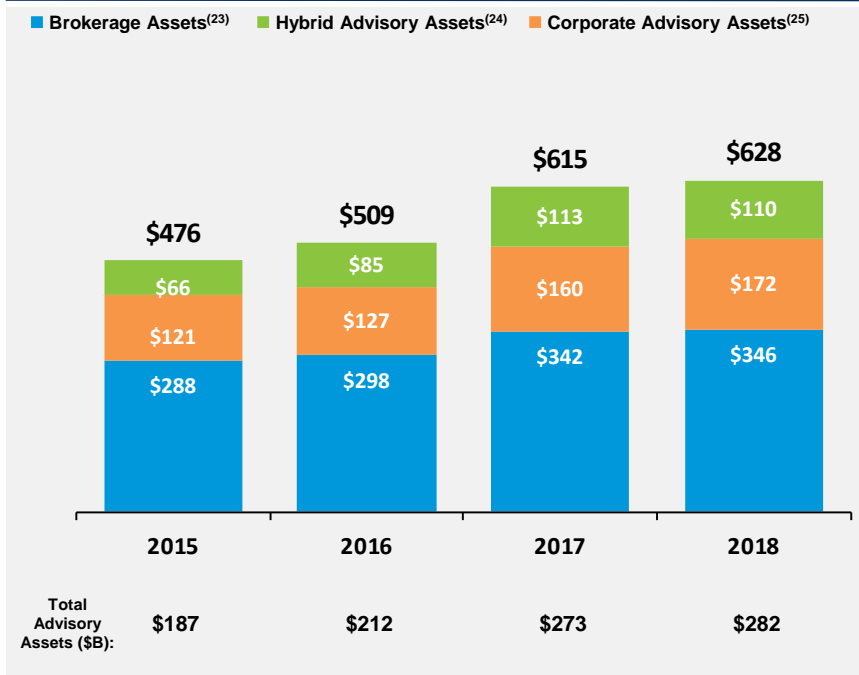
LPL Investment Highlights: Significant opportunities to grow and create long-term shareholder value

- 1 Attractive market with secular industry tailwinds**
- 2 Established market leader with scale advantages**
- 3 Organic growth opportunities through net new assets and ROA**
- 4 Positively levered to rising interest rates and equity markets**
- 5 Disciplined expense management driving operating leverage**
- 6 Capital light business model with significant capacity to deploy**
- 7 Opportunity to consolidate fragmented core markets through M&A**

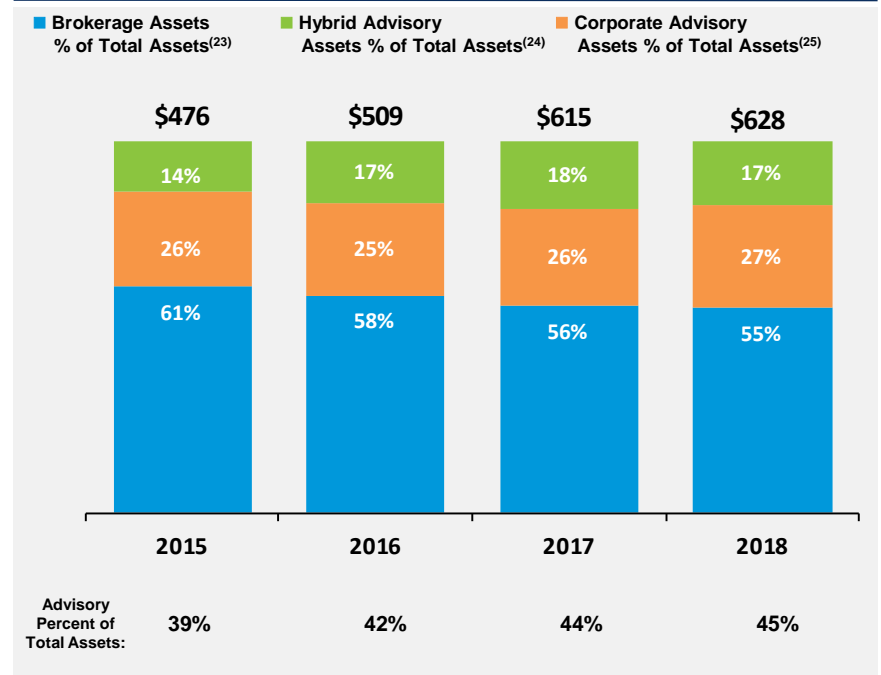
APPENDIX

Total assets continue to increase driven by advisory growth

Both brokerage and advisory assets have grown over time

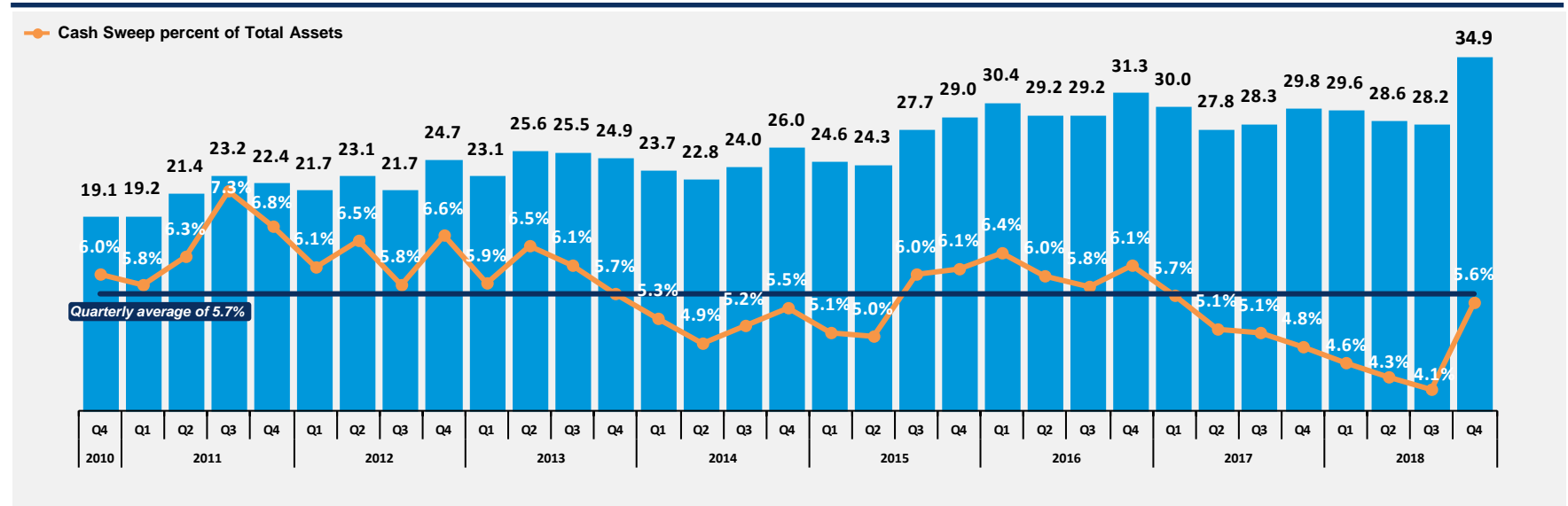


The mix of assets continues to shift towards advisory



In Q4, client cash balance levels moved back in line with our long-term average

Cash Sweep balances (\$ billions)



Over the past decade, cash sweep as a percent of total assets has averaged ~6%, with a high of 9.6% (Q4 2008) and a low of 4.1% (Q3 2018)

Calculation of Gross Profit

Gross profit is a non-GAAP financial measure. Please see a description of gross profit under “Non-GAAP Financial Measures” on page 3 of this presentation for additional information.

Set forth below is a calculation of Gross Profit for the periods presented on page 4 and 28:

\$ in millions	2018	2017	2016	2015
Total Net Revenue	\$5,188	\$4,281	\$4,049	\$4,275
Commission & Advisory Expense	3,178	2,670	2,601	2,865
Brokerage, Clearing and Exchange	63	57	55	53
Gross Profit	\$1,948	\$1,555	\$1,394	\$1,358

Reconciliation of Core G&A to Total Operating Expense

Core G&A is a non-GAAP financial measure. Please see a description of Core G&A under “Non-GAAP Financial Measures” on page 3 of this presentation for additional information.

Below are reconciliations of Core G&A to the Company’s total operating expenses for the periods presented on page 20, and of Core G&A, prior to the impact of the acquisitions of NPH and AdvisoryWorld, against the Company’s total operating expense for the same periods:

\$ in millions	2018	2017	2016	2015
Core G&A	\$819	\$727	\$700	\$695
Regulatory charges	32	21	17	34
Promotional	209	172	149	139
Employee share-based compensation	23	19	20	23
Other historical adjustments	-	-	-	13
Total G&A	1,082	938	886	904
Commissions and advisory	3,178	2,670	2,601	2,865
Depreciation & amortization	88	84	76	73
Amortization of intangible assets	60	38	38	38
Brokerage, clearing and exchange	63	57	55	53
Total operating expense	\$4,471	\$3,787	\$3,655	\$3,933

\$ in millions	2018	2017
Core G&A	\$819	\$727
NPH related Core G&A	65	15
AdvisoryWorld related Core G&A	2	0
Total Core G&A prior to NPH and AdvisoryWorld	\$752	\$712

Reconciliation of Net Income to EBITDA

EBITDA is a non-GAAP financial measure. Please see a description of EBITDA under “Non-GAAP Financial Measures” on page 3 of this presentation for additional information.

Below are reconciliations of the Company’s net income to EBITDA for the periods presented on page 4:

\$ in millions	2018	2017	2016	2015
NET INCOME	\$439	\$239	\$192	\$169
Non-operating interest expense	125	107	96	59
Provision for Income Taxes	153	126	106	114
Depreciation and amortization	88	84	76	73
Amortization of intangible assets	60	38	38	38
Loss on Extinguishment of debt	-	22	-	-
EBITDA	\$866	\$616	\$508	\$453

Reconciliation of Net Income to Credit Agreement EBITDA

Credit Agreement EBITDA is a non-GAAP financial measure. Please see a description of Credit Agreement EBITDA under “Non-GAAP Financial Measures” on page 3 of this presentation for additional information.

Set forth below is a reconciliation from the Company’s net income to Credit Agreement EBITDA for the trailing twelve months ended December 31, 2018:

\$ in millions	Q4 '18 LTM
NET INCOME	\$439
Non-operating interest expense	125
Provision for Income Taxes	153
Depreciation and amortization	88
Amortization of intangible assets	60
Loss on Extinguishment of debt	-
EBITDA	\$866
Credit Agreement Adjustments	
Employee share-based compensation expense	23
Advisor share-based compensation expense	6
NPH run-rate EBITDA accretion(1)	92
Realized NPH EBITDA Offset(2)	(76)
NPH onboarding costs	42
Other(3)	16
Credit Agreement EBITDA TTM(4)	\$969

Credit Agreement Adjustments include:

- (1) Estimated potential future cost savings, operating expense reductions or other synergies included in Credit Agreement EBITDA in accordance with the Credit Agreement relating to the acquisition of NPH. Such amounts do not represent actual performance and there can be no assurance that any such cost savings, operating expense reductions or other synergies will be realized.
- (2) Represents portion of Credit Agreement EBITDA that management estimates to be attributable to the NPH Acquisition, which is added back to offset NPH run-rate EBITDA accretion, in accordance with the Credit Agreement.
- (3) Items that are adjustable in accordance with the Credit Agreement to calculate Credit Agreement EBITDA, including employee severance costs, employee signing costs, employee retention or completion bonuses, and other non-recurring costs.
- (4) Under the Credit Agreement, management calculates Credit Agreement EBITDA for a four-quarter period at the end of each fiscal quarter, and in so doing may make further adjustments to prior quarters.

Reconciliation of EPS Prior to Amortization of Intangible Assets to GAAP EPS

EPS Prior to Amortization of Intangible Assets is a non-GAAP financial measure. Please see a description of EPS Prior to Amortization of Intangible Assets under “Non-GAAP Financial Measures” on page 3 of this presentation for additional information.

Below are the following reconciliations of EPS Prior to Amortization of Intangibles to GAAP EPS for the periods presented on pages 4 and 28 of this presentation.

	2018	2017	2016	2015
GAAP EPS	\$4.85	\$2.59	\$2.13	\$1.74
Amortization of Intangible Assets (\$ millions)	60	38	38	38
Tax Expense (\$ millions)	(17)	(15)	(15)	(15)
Amortization of Intangible Assets Net of Tax (\$ millions)	43	23	23	23
Diluted Share Count (millions)	88	92	90	97
EPS Impact	0.48	0.25	0.26	0.24
EPS Prior to Amortization of Intangible Assets	\$5.33	\$2.84	\$2.38	\$1.98

Endnotes

- (1) Based on total revenues, Financial Planning magazine June 1996-2018.
- (2) Represents the estimated total brokerage and advisory assets expected to transition to the Company's broker-dealer subsidiary, LPL Financial LLC ("LPL Financial"), associated with advisors who transferred their licenses to LPL Financial during the period. The estimate is based on prior business reported by the advisors, which has not been independently and fully verified by LPL Financial. The actual transition of assets to LPL Financial generally occurs over several quarters including the initial quarter of the transition, and the actual amount transitioned may vary from the estimate.
- (3) The Company calculates its Net Leverage Ratio in accordance with the terms of its credit agreement.
- (4) The Company's market share was calculated excluding the estimated ~\$135B of retirement plan assets that LPL Financial advisors advise.
- (5) ~\$1 Tr does not include \$1 Tr of assets custodied with proprietary bank B/Ds (e.g. Wells Fargo, JP Morgan Chase, etc.)
- (6) Consists of total client deposits into advisory accounts less total client withdrawals from advisory accounts. The Company considers conversions to and from advisory accounts as deposits and withdrawals respectively. Annualized growth is calculated as the current period Net New Advisory Assets divided by preceding period total Advisory Assets, multiplied by four.
- (7) Consists of total client deposits into brokerage accounts less total client withdrawals from brokerage accounts. The Company considers conversions to and from brokerage accounts as deposits and withdrawals respectively. Annualized growth is calculated as the current period Net New Brokerage Assets divided by preceding period total Brokerage Assets, multiplied by four.
- (8) Consists of existing custodied assets that converted from brokerage to advisory, less existing custodied assets that converted from advisory to brokerage. This included \$0.2 billion of assets from NPH in Q4 2017, and \$0.3 billion of assets from NPH in each Q1 and Q2 2018.
- (9) Reflects retention of commission and advisory revenues, calculated by deducting the prior year production of the annualized year-to-date attrition rate, over the prior year total production
- (10) Consists of total brokerage and advisory assets under custody at LPL Financial.
- (11) Consists of total client deposits into advisory accounts on LPL Financial's independent advisory platform less total client withdrawals from advisory accounts on its independent advisory platform. Annualized growth is calculated as the current period Net New Hybrid Advisory Assets divided by the preceding period total Hybrid Advisory Assets, multiplied by four.
- (12) Consists of total client deposits into advisory accounts on LPL Financial's corporate advisory platform less total client withdrawals from advisory accounts on its corporate advisory platform. Annualized growth is calculated as the current period Net New Corporate Advisory Assets divided by the preceding period total Corporate Advisory Assets, multiplied by four.
- (13) Represents those Advisory Assets in LPL Financial's Model Wealth Portfolios, Optimum Market Portfolios, Personal Wealth Portfolios, and Guided Wealth Portfolios platforms.
- (14) Consists of total client deposits into Centrally Managed Assets (see FN13) accounts less total client withdrawals from Centrally Managed Assets accounts. Annualized growth is calculated as the current period Net New Centrally Managed Assets divided by the preceding period total Centrally Managed Assets, multiplied by four.
- (15) Represents annualized Gross Profit* for the period, divided by average month-end Total Brokerage and Advisory Assets for the period.
- (16) Consists of revenues from the Company's sponsorship programs with financial product manufacturers and omnibus processing and networking services, but does not include fees from cash sweep programs. Other asset-based revenues are a component of asset-based revenues and are derived from the Company's Unaudited Condensed Consolidated Statements of Income.
- (17) Calculated by dividing cash sweep revenue for the period by the average client cash sweep balance during the period.
- (18) Average duration is calculated as the weighted average life of the fixed rate contracts.
- (19) Represents the average month-end Total Brokerage and Advisory Assets for the period.
- (20) Represents annualized operating expenses for the period, excluding production-related expense (OPEX), divided by average month-end Total Brokerage and Advisory Assets for the period. Production-related expense includes commissions and advisory expense and brokerage, clearing and exchange expense. For purposes of this metric, operating expenses includes Core G&A*, Regulatory, Promotional, Employee Share Based Compensation, Depreciation & Amortization, and Amortization of Intangible Assets.
- (21) Calculated as Gross Profit ROA less OPEX ROA.
- (22) Additional leverage capacity is assumed to be generated by acquired EBITDA from an M&A opportunity at a 6-8x purchase multiple for which capital was deployed up to 2.75x net leverage.
- (23) Consists of brokerage assets serviced by advisors licensed with the LPL Financial.
- (24) Consists of total assets on LPL Financial's independent advisory platform serviced by investment advisor representatives of separate investment advisor firms ("Hybrid RIAs"), rather than of LPL Financial.
- (25) Consists of total assets on LPL Financial's corporate advisory platform serviced by investment advisor representatives of LPL Financial.