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# EDITED TRANSCRIPT

LPLA.OQ - LPL Financial Holdings Inc at Bernstein Strategic Decisions Conference

EVENT DATE/TIME: MAY 28, 2025 / 12:00PM GMT

**OVERVIEW:**

Company Summary

## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**Christian Bolu** - *Autonomous Research*

## PRESENTATION

**Christian Bolu** - - *Autonomous Research*

All right, I think we can get started here. So good morning everyone, and thanks for joining this early session with LPL Financial. I'm delighted to have Rich Steinmeier, CEO at LPL, for the first time at the SDC Conference.

As many of you know, LPL is one of the fastest growing players in the US wealth management space, with almost \$2 trillion in client assets, driven by a long track record of strong organic growth and strategic acquisitions.

Rich took over as CEO late last year. Prior to that, he served as the Chief Growth Officer, and before that, Rich had senior leadership roles at UBS, Merrill Lynch, as well as working for McKinsey. So Rich, thank you very much for joining the SDC.

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

Thanks, [Christian]. It's great to be here.

## QUESTIONS AND ANSWERS

**Christian Bolu** - - *Autonomous Research*

Good. So just quick housekeeping. You can send questions to Pigeonhole via some QR codes somewhere, so you can find that and I guess, send the questions, and I'll try and get them to Rich. So let's just start, Rich, it's been a very busy start to your time as CEO, doing the largest deal in LPL's history, and dealing with significant policy and micro uncertainty.

So just reflect on your time as CEO so far, how have your views on the company evolved? Kind of what changes are you making relative to maybe the prior management team?

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

Yeah, I was part of the prior management team, so I'll say we haven't made tremendous changes.

Look, I think it's been a busy seven months. I'm really proud about the progress that we've made. So much of this is a continuation of the strategy of the firm. I think we are very solidly participating in two market trends that are macro trends that continue to move.

The first is the movement to independence. We hold ourselves out certainly as the strongest player in the independent channel. And in addition to that, participating in this movement, in the institutional market of outsourcing/partnerships, banks, credit unions, now increasingly insurance firms as well.

A couple of things we've done over the last maybe seven months that are pivots, we have heightened our focus on operating margin. That's one thing that is starting to pull through. Maybe some of you saw that in our Q1 earnings, but that is a culmination of investments we've made over the last several years to drive greater efficiency in the operating experience.

I think, as we think about it, as you think about calls even into a call center, we view those as a flawed experience inside of the operating environment. And so taking a really keen eye into all of the things that drive, I wouldn't even say dissatisfaction, but drive inefficiency in the operation of an advisor's business, getting to the root cause of those, leaning those out, applying lean principles, and then designing them out into the experience, is beginning to take shape in how we think about the cost curve for servicing advisors, not just in service but in operation.

So elevation of the operating margin. I think one other thing which you'd see culminate a little bit in the Commonwealth acquisition is this heightened orientation to driving an exceptional service experience. That's not just getting the right answers to questions that come in, that is actually an orientation towards really being responsive to advisors, creating many more ways to ingest their feedback, to disposition that feedback, to act on it, and to close the loop back with advisors.

And so those are two areas that I would say, we've changed, we've elevated the import that will continue to drive, I think, improvements not only into the client experience but the overall operating performance of the firm.

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**Christian Bolu** - - *Autonomous Research*

Great, and I'd love to dig into the margin debates at some point, but let's stick to growth for now. You joined in 2018 and maybe I'll give you credit for this, but since then, EPS has compounded 20%. Organic growth has doubled from 4% to 8%, which is best in class in industry. Maybe just help us contextualize what's driving the outsized growth, and how you think about maybe that sustainability of that growth going forward.

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

Yeah, when I joined the firm in 2018, I'd come from the wires, and I think there was this perception even inside the firm that there was a "less than" element of how the independent broker dealers operated and I was struck by the capability set that we had at LPL that I thought really competed with the wires in a very toe to toe fashion, but I don't think that a lot of folks in the marketplace really experienced us that way or believed that to be the case.

And so one of the first things that we pursued was expanding our affiliation models. The reason we did that was we needed greater access points into independence, because independence is not a model, it's actually a belief that the advisor owns their own business. And so there's a continuum of how you deliver an experience there.

And so we introduced an independent employee channel, a supported independent channel, we enhanced our capabilities as a custodian to be a counterparty to RIAs. And so the first step was really expanding the access point. And it didn't just mean that new advisors went into those channels, it meant that we were relevant and so much of that strategy was around enhancing consideration.

That was around having more advisors actually actively engage us because when they actively engaged us we found that disproportionately we would actually win relative to competitive set. So step one, I think investors would have viewed that as a TAM strategy.

I would view that more as a consideration strategy to be a relevant counterparty to as many advisors in the marketplace who are moving as possible, and that doesn't mean they move into those models, it means that they consider us and then they ultimately work through what is the appropriate model, and I think that was step one.

I think the second step was as we accelerated growth, and that was the beginning of the acceleration of growth, I think it was more confidence in ourselves, knowledge about where we were competitively, and then expanding our addressable market.

As we began to accelerate growth, we reinvested and you see that over that course of those kind of four years where we build out capabilities where there were gaps. We identified that there were material gaps and that's where we thought about how relevant are we not just a TAM strategy, but how relevant are we to those advisors that are moving and what are the key inhibitors from where we get disqualified in the sales process.

And we have a pretty rich and robust feedback loop inside of our sales process, so the identification and building out of new capabilities to make ourselves more relevant, and then you pair that with I would say a second to none value exchange in the marketplace, and all of a sudden our win rates began to increase.

And what you see that manifest in was our market share of advisors changing firms dramatically increased over that kind of five year arc, which culminates in us having industry leading growth, and I don't think we're giving that up anytime soon because we continue to pursue that strategy, but now we've moved out of -- so many those gaps have been closed -- you get into what I would say again is a second to none value exchange with capabilities that are no longer compromised. And in fact we're on the cusp of those capabilities being stronger than the players that I used to work at.

And so you marry that with an unbelievable value proposition and you get -- you don't have to have independence or capabilities. You kind of get the best value proposition and the best capabilities. And I think it's really hard to stop. So that's we're on the cusp of that, and so I'm excited about that being the next leg in our journey. .

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**Christian Bolu** - - *Autonomous Research*

M&A has also been just a key part of your growth strategy. I count close to six deals in the last couple of years, almost half a trillion of AUM, but it does feel like the Commonwealth deal that you recently announced was a step function change in your ability to attract the best talent, your ability to serve advisors, maybe talk through what makes Commonwealth special, what exactly you want to preserve in the Commonwealth model and transfer to LPL.

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

I would agree with you. I think that the Commonwealth transaction is a bit of a watershed deal for us and what I mean by that is that was a firm that could have ultimately paired with anybody in the marketplace. I think it was a very robust process that they went through, and I think the decision process that ultimately culminated in us winning that transaction was that the founder of the firm asking the leadership of the firm and they're in a partnership model, what firm do you think if we partnered with will be the most successful for our advisors over a five year arc? That is a huge validation to LPL.

They had any other firm they could have chosen to go with, and they chose not based on a monetary consideration. Obviously there are monetary considerations, and so you've got to be in the ballpark, but they chose it based on where they thought the advisors would have the best opportunities to succeed.

And I think if you think about that is not where a lot of folks would have positioned this firm five years ago. And it goes into, and I know you'd asked about the growth, maybe one of the things that I didn't hit not only do we take more advisors in the marketplace, but we have one of the lowest, if not the lowest attrition rate of our existing advisors.

And so there's commonly held narrative in the space that you know we're too big, et cetera. And I would tell you that the data doesn't support that. And so driving growth is not only satisfaction with advisors but low attrition rates and then helping advisors be successful, which is I think ultimately how that decision got made.

But if you take that, Christian, and put that together, the Commonwealth has an exceptional service experience, as I mentioned a little bit earlier. The way that they receive feedback, the way they ask for feedback, the way it's dispositioned, which means it's distributed across the firm.

The way that they then close the loop, they actually build towards the capability gaps that are identified by their existing clients or the flaws in their systems. So they have a really rich and robust feedback system. In addition to that, they empower the servicing associates not just to get answers to the questions that advisors are asking when they call in, but to actually solve their problems.

And I think that empowerment is one other thing that we want to really emulate. And in addition to that, they have a fully aligned incentive system across their associates for the client satisfaction. And so there's so much of this in their responsiveness. They are really an ultra-responsive firm to advisors' needs. We want to ingest that in.

We want to make sure we're taking that on, and then serving that up to the broader population. And so you ask what do we want to keep in place for Commonwealth? Well, number one is the brand. The brand is fantastic. Advisors are really proud of being affiliated with Commonwealth.

The second is, they have a common set of experiences. It starts with, you could think of things as easy and tangible as conferences. But they have an advisor development program called Power in Practice that is fantastic as well.

The IP in that program is really well regarded. And so this consistency and commonality of experiences that they live inside of this community, plus the service experience, and then us emulating that feedback system, I think that is the body of those things that we want to keep common. And then so much of that we want to bring over into our broader experience.

And as you then evaluate maybe as we get out of looking at this transaction, on the backside of this, you will see that we will have elevated our service experience. We will have elevated our ability to ingest and disposition and act on feedback.

We will also open up our conversations with more wirehouse advisors because I think that is where, as wirehouse advisors look to independence, there are two names that they look to, it's LPL and Commonwealth. And I think the Commonwealth had a higher tier experience, and so I think that is a pretty validating event for us to have the firm that is the premium 1099 model have chosen to partner with us, going forward.

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**Christian Bolu** -- *Autonomous Research*

Awesome. So Richard, we're sitting here in two years' time. How do we judge the success of the deal, the Commonwealth deal? I know we have a couple of targets around -- I'm going to EBITDA of the company from \$120 million to north of \$400 million. You have some retention targets. But talk about financially and strategically or service wise, how we judge the deal's success in a couple of years.

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

Yeah, given that we're at the SDC, well, I'll start with strategy. I also have an affinity for strategy. I think -- I do think that there's so many questions in the marketplace about "are we going to sustain what makes Commonwealth great?" and the answer is, we're going to.

This is a strategic deal as much as it is a transaction about coming together of two different firms. This is actually about taking what is best with each of the firms individually and elevating them because I didn't mention -- while there are things we're keeping common or keeping consistent at Commonwealth, they are going to gain access to our capability set, our robust, rich business solution support, et cetera.

And so I think, how would you measure the success of this transaction? I think one, obviously the short-term evaluation will be the retention of the advisors. We continue to track and feel good about our engagement, and we're pretty robust in the way that we model these and the way that we track the duration of how those re-recruiting conversations go.

And we feel pretty comfortable about where we stand relative to targets there. But I think the judgment will not just be on EBITDA because that's relatively straightforward. We retain the advisors, we move to self-clearing. We actually put them onto our client works platform, and I think you're going to see that pull through. It's not that complex to figure out.

There's a lot to make it happen, but it's not that complex to figure out that we would actually hit those financial targets. I think the success of this will be, are we able to attract more advisors in the marketplace to this premium offering that is Commonwealth, which we will sustain?

Are we ingesting those capabilities into our service experience? Do they have a 92? They have consistently sit around 92 in their J.D. Power NPS score. Are we able to lift the overall NPS score at LPL because we think that we can drive attrition even lower than it is today, and I think that would be principle for us driving attrition in that -- I've got to be careful not to create guidance.

These guys will wreck me. But something lower than we're at. Today, I think we feel confident that as we build our capabilities, get this service model, get this responsive culture, there's a chance for us to suppress attrition even further while we elevate advisor satisfaction.

And I think if you do that, that'll really solidify us and continue to accel our ability to maybe even move growth, certainly to sustain it in that high single digits, low double digits, but maybe even begin to move up a little bit.

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**Christian Bolu** -- *Autonomous Research*

Okay. You alluded to this, the competitive landscape and folks targeting the Commonwealth advisors, but generally I think you've noted. There's been enhanced competition, but you're very confident in LPL's competitive advantage, just elaborate on that. What exactly from an economic perspective is more attractive at LPL versus peers?

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

Yeah. Yeah, so I think you know this is I think something I noted in Q1 earnings. And we saw -- we've heard it from other firms in the marketplace saying they view it as a more competitive movement environment and so I think they said they're going to reflect properly into TA to be more competitive.

I think it's quite late in the cycle to be making that call, but okay, I have the privilege of being in a firm that doesn't have to make that call. I think what you would see is advisors don't choose to join firms exclusively because of TA.

In fact, I don't think it's the number one choice. Ultimately, advisors will choose the firm that they think they can be successful at, and most advisors, not all, but 90%, probably [95%] (corrected by company after the call) to 98% of advisors are looking for the last firm they can work at.

Nobody really wants to go through that transition. There are flippers who will go every seven years and change firms and that's that other you know set of advisors. but they're looking for a firm that can grow with them and evolve with them.

So if you think about all of the affiliation models that we've put in place, that allows an advisor, that allows her to start in a 1099 model, move to a W2 model if it makes sense. In time, if it means set up your own RIA, they can do all of that without having to change firms.

So many firms, as you change and evolve your business, you actually have to change firms, which is disruptive. And so I think they look for a firm that has incredible flexibility. I think they look for a firm that is an at-scale firm that has the capabilities to serve them and drive their growth. I think they look for a firm that is efficient in the way that you do business.

Our NIGO rates are about 2%. Pushing underneath that, some other firms NIGO rates, that's Not In Good Order, sorry -- sit in the mid-teens, 15%, 16%, 17%. I've heard of firms up to 50% NIGO rates, which means it's really hard to do business.

So an efficient operating environment, a firm that has permanent capital, so you don't have to think about, oh my goodness, I'm going to go through a trade here. I didn't want to, but I'm going to because my partner has traded away.

And then ultimately, I think that you take that together and then we obviously have economics that are really rich and robust. We acknowledge that advisors generate the lion's share of the value that is created between them and a client.

And so reflecting that back in a differentiated fashion, that's actually the attraction to the 1099 model. So the at scale player, in the 1099 space, who believes in independence, and has flexibility, with the ability to be a sustaining partner over a long arc, put those and stack those together, there are not any -- there really isn't another firm that can say what I just said, and I think that's what drives so much of the movement to our firm and the attractiveness of this firm.

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**Christian Bolu** - - *Autonomous Research*

But are you seeing in real time incremental competition on the TA side as you go out and recruit advisors?

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

We haven't seen more competitive -- a more competitive environment. What we have seen is the last several months you've seen a further dampening of advisor movement overall. And so I would tell you that we are feeling that more acutely over the last three months.

We see in the last couple of years we've sat around a 5% to 5.5% movement. I think if you just take the beginning of this year, I think you're seeing that move into the 4s, and so you see a truncation of movement which I think is a deferral of movement.

But I don't see -- and by the way again for us, even as you've seen that come down from 6.5% to 5.5% to 5%, we've grown share capture of movement in the marketplace. And so I would expect us to continue to drive share capture improvement so that we will be somewhat insulated from the macro, not entirely insulated because you'd much prefer the macro to be better.

But in terms of direct competition, listen, it's acutely there at Commonwealth, right? I mean, there is every single firm in the marketplace is coming out with their best offer and reflecting themselves as positively as they can.

I would tell you, Christian, the thing that's surprising to me in that is that I think so many firms in the marketplace don't know who they are. They're defining themselves by being the opposite of LPL, which is like darkness is the opposite of light, but it doesn't really explain what it is.

And so I think it's quite odd to see the firms show up defining themselves through a counter to our firm versus actually articulating to advisors why they're the right firm to position with and to partner with. And so yes, I've seen intense competition at Commonwealth more broadly.

I haven't seen the TA effect more broadly in the marketplace, though I have seen it. You see the offers out there in the marketplace for the Commonwealth advisors.

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**Christian Bolu** - - *Autonomous Research*

Okay. So a lot going on the Commonwealth, for you. So Atria, a bunch of large institutional clients are integrating. I mean, how's the management team holding up here in terms of just the ability to prioritize and allocate resources to different initiatives? I mean, is there any sort of worry here that just management capacity could be stretched given just the amount of stuff going on?

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

I think if you'd asked me that question in 2021, I would have said yes. So in 2021, we actually onboarded Waddell & Reed, BMO, and M&T Bank, and that for us was a watershed year because that was three major onboardings that occurred over the course of a six month period.

And we weren't ready to -- I don't think we're not anywhere near as ready as we are now today to understand the organizational impact of having to hire up service associates at that clip, having to make sure we have all of these transitions occur.

And so we began building the discipline to onboard large transitions. And onboard them, with regularity, we used to think about one a quarter, then we thought about one a month. Now we think about multiples that we can do over the course of a month.

I think a couple of weeks ago we did an Atria -- we converted over two different broker dealers over the same weekend from two different custodians. Like four years ago that was unheard of for us. That would have been ridiculous.

And so I think as you look at our institutional capability to actually onboard material, large events in short periods of time and do them really well. That's one of the other things we've invested significant resources in automating so much of that.

We have a discipline in place now. And it feels like more like regular course of business than an anomalous event. Yeah, I'm really -- look, I don't want to minimize bringing on \$400 billion in assets over the course of this year will be momentous, maybe the course of this year plus next year. It's a significant event.

We're taking it very seriously, but we're not intimidated by it, nor is it really that far off the path that we've been on. This drumbeat of large deals has really, I would mark that 2021 as a year where we'd probably got in the deep end of the pool, and needed to do some work. And I would tell you that BMO and M&T would have said, man, these weren't the best transitions we've ever had.

By the way, subsequent to that we transitioned Bank of the West and People's United Bank, for each of them, individual deals they've done, those were exceptional transactions, or transitions I should say.

And I think that is where we realized we need to make sure we are very serious and very good at transitions because this can augment how we drive growth, and I think we feel good about our institution capabilities. Management team may be tired, but that's kind of what you're in the game for.

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**Christian Bolu** - - *Autonomous Research*

Right. So I mean, clearly the top line growth for you guys is pretty robust here. I think what's particularly exciting is adding that to operating leverage or efficiency as you mentioned earlier on, and it feels like to your point we're going to see it already. Maybe just talk some specifics as to what you're seeing and then what's the potential over the next couple of years in terms of driving incremental efficiency.

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

Yeah. So maybe I'll start with organizational design, which is not where you would necessarily think you'd start with an operating margin question, but I think if you look at one of the bigger decisions that I made in conjunction with the Board, when I was named into the CEO role, I actually named our CFO, Matt Audette, who you know very well, and I think everybody in this room probably knows him better than me, named him the President as well, and we actually consolidated service operations supervision, risk and compliance in with him.

And so you actually -- and I know a lot of folks know Matt as a really disciplined CFO, but he also shows up as a very disciplined operator as well. And putting those organizations together with financial targets but also in an uncompromising, you can no longer -- you can't set targets and just say come hell or high water, we're going to hit these targets.

We're going to create an operating environment that does not deteriorate the client experience, in fact enhances the client experience because it's more efficient. And so Matt had had some of those functions. He didn't have all of those functions, and I can tell you it's one of those things where when you get an exceptional talent and create the right conditions for their success, and I would say that is the story here.

There is a story of a leader who is a fantastic leader, who had been inside of one definition and a broadened expansive mandate, he's really shown up in a way that is transformational to the firm, demonstrating leadership.

And so what you see for us is a beginning of understanding how we can bend the cost curve in that variable cost to serve per advisor. You see emerging technologies, so there's a partnership between not just those organizations that Matt owns, but our technology organization for the application of AI and the drive to a more efficient operating environment as well.

As we ingest more of those emerging technologies and again I would go back, Christian, you have to have the capacity to invest to be able to actually -- so the investments that went in in advance and the continued capacity to invest that allows us to ingest AI to drive operating efficiency.

I think these things come together and they are -- they will culminate us in a continued march, not just as you mentioned around growth and sustaining growth, but sustaining growth at a higher margin. And we're very convicted.

We're very convicted in that journey, and we can see a pathway for that journey's continued success, and this isn't kind of a hope and a prayer. This is in the same way you organize, you build a plan, and we have a multi-year plan for the continuous improvement of operating margin.

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**Christian Bolu** - - *Autonomous Research*

That's a good segue to maybe talk about your investment and technology priorities going forward. How do you think about what you need to be invested in, from a tech perspective? I think you mentioned AI automation, but would love a broader conversation on that.

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

Yeah. I mean, so much of our investment over the last couple of years has been in building capabilities to close gaps relative to wirehouses, and that's where I'm feeling a lot better about those no longer being gaps and more about us actually beginning to demonstrate some gapping of ourselves, relative to even what I used to call aspirational competitors. I don't anymore. They're just competitors. So there's an orientation toward continued capability investment. I think you see performance reporting, CRM enhancement. With Commonwealth we're going to drive towards a single account construct which doesn't mean a lot to folks in this room, but it means a lot to advisors.

So keeping your finger on the pulse of what the needs are of advisors to make sure that they're getting every bit of capability they would get at the best firm in wealth management, which is what our aspiration is to become.

Second is obviously that orientation we were just discussing towards investments in building a more efficient operating environment. And so much of that actually pays off with advisors in having a frictionless ecosystem that they operate in.

It wins on both sides. It is less interactions on our side because there's a more logical and fluid workflow environment. And a lower cost to serve because you're measuring straight through processing as a percentage of total transactions, and that's a measure we look at, which is what -- where are we at on percentage of interactions that are straight through process versus having to have a human touch on them.

And designing out those that have to have human touch. So one would be capability enhancements, two would be operational efficiency enhancements, and then three is making sure that we have a modern architecture.

That is, there are increasing cyber threats as we get larger, we are more subject to those increasing cyber threats, and so making sure we have an incredibly robust operating environment with redundancy, load balance systems as well, that's -- those are probably the three areas I would think about that are principle for investing.

**Christian Bolu** - - *Autonomous Research*

Another place you've been investing is in the alternatives platform. You've done some work around enhancing the advisor access. Maybe talk through what you've done so far, but more importantly, advisor take up, when you think it'll be a meaningful contributor to the business.

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

Yeah. Yeah. So for us, alts is an area where I would tell you, as we look at where will we get disqualified from more complex advisors from choosing to join this firm, banking and alts would have been the two big areas that you would look at.

And I think we've put a pretty sizable checkmark into that alts business. So what we've done is there's kind of three legs on the stool of what we had to build. The first is we actually needed to be able to custody the alts directly with us, and so we partnered with SS&C. We built a robust custody platform to be able to ingest up to 1,500 different alts. So as you move to our firm, we can actually service and custody those alts.

The second then is building a more robust selling agreement, set of alts for which we have go forward selling agreements, and so we're up to 90 different alts. And we think about the top players being the wires. They sit at about 130 different selling agreements, and so we've got a gap that we should close by the end of this year in terms of selling agreements for advisors, basically having access to inventory that they can purchase.

And then the third was our sales process. And so can you do that all online? Is there e-sig? And our old process used to be a bit more of an offline process, wet signature, and so we've just deployed that over the course of the first quarter, a significantly enhanced selling experience or buying experience, if you will.

And so now in terms of the capabilities, we feel very good. And like I said, by the end of the year we'll have closed the gap to wirehouses in terms of the inventory available for sale. You asked though the second part of that question is when will it become a more material component of make a material contribution.

And I think you know that one probably looks a little bit different than other firms. That for us is so much about opening access to a broader set of advisors. Again, probably the number one reason wirehouse advisors would have disqualified us was our banking capabilities and how narrow they were. So we're building that out and that will take that off the table by mid next year.

But alts was the second. And so now we've taken that off the table. And so if you go back to that consideration set, again, there's one thing to get a total addressable market that has opened up, but inside of that TM, you actually have to have what can you serve with distinction, and I think that's where you'll see this open up for us more, is opening up a continued widening of the aperture to more complex advisors who are using alts as a material component of their business. So that's the primary orientation.

Secondary orientation is that we've had a number of advisors who probably weren't ingesting and using alts in their portfolios as broadly as you might have seen at other firms, and that will probably take a little bit longer to bake in. We've got a 22-person sales team that works out there directly with advisors inside of our ecosystem, to help them utilize alts inside of portfolios, as they construct them.

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**Christian Bolu** - - *Autonomous Research*

Okay, good stuff. Maybe let's just step back a little bit and just think more broadly about wealth management as you look over the next, I don't know, call it five years. Are there any -- I don't know if it's emerging technologies, regular changes, just the way -- or client expectations that you think will significantly change wealth management and how's LPL positioned for those?

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

Yeah, so maybe I'll start less though with technology. I'm happy to go to technology. Maybe I'll hit that second, but I think the first thing is, I think you're going to see an acceleration of the move to independence. I just think that there used to be this perception in the marketplace that there were "haves" that were the wires as well as some of the regionals, and there were "have-nots," which was this trade of, okay, if I move to independence, I'm going to be compromised in the capabilities.

And I think you see us as an at-scale player that can go toe to toe with any other firm in wealth management. All of a sudden there is a question which is why are you going to sit at a 40% payout? Why are you going to sit where the firm that you sit with, as you choose to leave them, they're going to make it -- they're going to try to destroy your life's work.

As you sit with, for most advisors, that's their single largest asset, is their business. Why would you sit with a firm that chooses to make you a competitor of theirs that comes to market with silly ads that talk about how advisors or brokers and all this nonsense.

Why would you not want to be with a firm who acknowledges that we serve you, who acknowledges that it is your business, who has every bit of capability that all of those other firms have, that actually is going to out invest.

Today we out invest any other firm in wealth management, discreetly for wealth management. Why would you not want to be with a firm that only does wealth management instead of propping up an investment bank, an asset manager, or a retail banker, or a commercial bank?

As we talk about investments, they go directly to supporting advisor's business. And so I know I'm talking about LPL. But I think LPL is starting to shape the movement in the industry. So if you deconstruct the movement to the independent model, what you'll see in that is that's a lot of the movement to LPL. And I think that should accelerate because I think the perceptions, and don't -- I often say these things like "don't miss this." Well, you should do -- you should miss whatever you want to miss. But us launching our brand in the marketplace is a watershed event. Commonwealth was a watershed event because it is a validating event to acknowledging that this firm is exceptional.

And launching our brand in the marketplace, we would have never done five years ago because advisors wouldn't have wanted us to. They want us to. They were calling for us to be more relevant in the marketplace. And so we were able to do that over the last couple of weeks. We will sustain that investment in the brand. It is a validating event to get us into greater consideration.

And so I think what you're going to see is the movement to independence is going to accelerate because the barriers to movement are going to drop, and those value propositions are not keeping pace. The traditional competitors in the marketplace are not really changing how they compete, and we're changing the face of competition, and so I would expect that to accelerate.

The other thing maybe you're the caveat that maybe everybody wants to talk to is the application of AI, advanced capabilities. I think at first to drive efficiency, and ultimately to drive productivity of advisors, but I would kind of put this in a ball that says, does your firm have the capacity to invest in those capabilities, because if they don't, I don't think you're going to see that pull through, and we do have the capacity to do that level of investment.

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**Christian Bolu** - - *Autonomous Research*

Maybe just on your competition points, what is there -- when you look at advisors that choose not to come to LPL, is there a particular theme that they call out?

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

Well, I think perceptions have a long time to change. McDonald's can go make themselves real, like have the freshest menu, and never frozen patties and all this other stuff and have juice bars if they wanted to, and there still will be perceptions of McDonald's as how people grew up with McDonald's.

And so in a not dissimilar fashion, I think there are any number of advisors who have a perception of what LPL is. They view it as a firm that served smaller advisors. By the way, we serve small advisors with pride. I would tell you I am really proud that we serve smaller advisors because it gains greater access to American families to advice through a financial advisor. And so we don't run away from that.

But I will tell you there are perceptions that says, okay, that firm is large, it serves on balance, smaller advisors, and those perceptions are dated. And I think that's what you run into is, that's why I talk about consideration maybe more so than I talk about TAM because consideration is the active evaluation of our firm.

And as we get into active evaluation with advisors I said earlier, we do really well. But there is -- you've got to change perceptions of the firm. That's why the brand campaign is important. It's important for our advisors because it's validating.

It's also important for other advisors to wake up and take a relook at this firm. I think it has a lot more to do with a legacy over 36 years that we're really proud of, but folks view us in a light that might be a little bit dated from where the firm is today.

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**Christian Bolu** - - *Autonomous Research*

All right. So wait for that Super Bowl ad next year.

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

Oh, yeah, definitely.

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**Christian Bolu** - - *Autonomous Research*

I mean, you talk a lot about consideration, and you talked about trying to be the best firm in wealth management and Commonwealth being a big driver or at least enabler of that. What does that mean exactly if we look at 5, 10 years, how can you be the best firm? How will we measure that?

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

Yeah. So I view the best firm as the greatest value exchange to your client, and again, please note that I'm calling our advisors our clients because it's our job to serve them, which in and of itself is slightly different -- actually materially different than most firms that compete in the marketplace.

But how you become the best firm in wealth management is that -- and this is a little bit of some of the things I said before, you have the easiest operating environment in which the advisors can thrive. You have the greatest flexibility to allow them as their business evolves to be a counterparty to them instead of binding in the way that they operate their business to be constrained to the way that you choose to allow them to operate their business.

You have economics that reflect the value creation that they generate with their clients. You have capabilities that are uncompromised, and in many cases the leading capabilities in the marketplace, and you have a service experience that serves them incredibly well.

And there's probably a little bit of room to go for us on that service experience, which is we've got to figure out how we solve problems for advisors, not just answer their questions. That's part of why Commonwealth is so important to us because they do that in spades, and so we have to ingest that.

But ultimately in the end, there's an element here. Being the best firm in wealth management means that you're willing to take yourself out and make that as the standard, meaning you're willing to call it. That is a -- you asked about the management team.

We feel very convicted about being the uncompromised best firm in wealth management, and we've got to cascade that into all of our employees because that sets a standard of care that is uncompromised, and I think that's next leg on our journey is enhancing the experiences delivered to advisors to an uncompromised level.

And there's still more work to do there, but it used to be about that we were gapped in capabilities and we still have some gaps. But it is much more now about a mindset for us being exceptional. And I think recognizing that, I say this to the folks at our firm, pretty often, we should feel really good about how we compete in the marketplace.

We should have our chins up and our chest out because we're a really, really great firm, and we serve advisors with distinction. And I think if you keep that going and you stay humble and you listen and you build capabilities with an unmatched value exchange, I think you can do great things. And for us in the end, Christian, it's about shaping the industry.

You want to be with the firm who's actually in the front, in the lead, changing the industry. Liquidity & Succession changes how we think about firms moving across multi-generations versus being with a firm that's in the wake of that, that's having to deal with the chop.

I think it is much more interesting and much more galvanizing to be the firm at the front. It means you take risks. It means you go out with the Commonwealth and you set a 90% retention target. And you go figure out how to get it done, but you take that risk, and it is a managed risk because the expectation is you lead, not follow, and that's the expectation with this firm. We expect to lead wealth management, not follow other firms.

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**Christian Bolu** - - *Autonomous Research*

Okay, back to strategy and M&A, acquisitions have been a big part of your strategy. Maybe just help us understand why it's a core part of the LPL strategy? And on the financial front, how are you able to continuously find accretive deals in what is a very competitive market for advisory acquisition?

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

Well, so I'll take those in turn. Why it's important? Well, one, we're in a consolidating industry. And so you have to make a choice as to whether you want to be a consolidator or you want to be consolidated. We've chosen to be a consolidator.

We've also found that, as I mentioned, we've built a capability to onboard advisors from those firms to where we can actually retain more because of our experience, so because we're so well organized that we actually give them a really, it's not completely frictionless, but it's certainly much less friction than transitioning to other firms.

And as well, I think so many of our acquisitions, when the advisors find out that it's LPL that's doing the acquisition, there's a sense that there's a tangible sense of relief that it is like, oh thank goodness because it could have been another firm.

It could have been another firm that's going to trade again in another six years. And so I think there's an element there where the conditions for our success are set up and we've invested in the capabilities to be successful.

But I'll get to that second part you asked about. How are we able to be to have, design our financials so that we can do it in a disciplined fashion. The truth is, that's why operating margin is so important, because ultimately what we care about is the buyer's multiple, and the seller cares about the seller's multiple.

And if we can build where synergies are driven dramatic difference in the operating environment and the cost structure to operate from the sellers versus ourselves, we're able to build a greater spread in buyer to seller multiple which allows us to be more competitive in deals than other firms might be able to. And so right now we feel quite good about our ability to be competitive.

But as we continue to drive op margin, I think you get a chance for us to be more competitive with other deals as prices -- I think prices are rational right now, but in different environments. I think so that's why -- that's one other ancillary reason why op margin is so important to us.

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**Christian Bolu** - - *Autonomous Research*

How do you think about risks from M&A, whether it's attrition, financial risk, what is the risk of continued M&A?

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

I think the primary risk is that you set a model that says there's a retention percentage and it's based on the retention percentage and you get challenged to get into that percentage. It's why it's important that as we go through diligence, our corp dev team is deeply embedded in that diligence process, and we know what we need to look for to identify the types of advisors that are likely to join our firm.

And again, some of that is you've got to take a leap of faith. But if you've seen, we've demonstrated continually that we've performed at our expectations, if not outperformed our expectations, but that's the risk, I think primarily because so much of the -- you ask about the synergies, we have a pretty good sense of how we're going to deliver those synergies.

So much of that's going to be moving to self-clearing, our technology platform, not having to have dupes of things. We look at those corporate functions that are going to be duped. And so you can pencil out a lot of that in the spreadsheet before you go through with the transaction itself.

And then you've got to get into -- you basically get into a right to recruit event, which is privileged and you have greater access, you have the ability to tell your story. You have the ability to ingest the data, to build a seamless transition because you're largely going to go through a tape to tape.

And so you know for us that usually means around 95% plus in not having to re-paper, which is a huge advantage. But you've got to go out there and maybe one of the things I wouldn't lose sight of is we have the single largest recruiting team in the marketplace, by far, by the way.

And so we're able to swing capacity at these large events. There's not a lot of other firms that can go after 2,900 advisors, and still keep regular away recruiting moving. And so our ability and capacity not only to ingest a large transaction but also stay in the marketplace versus fully pulling our recruiters out of the marketplace, I think is, I think it's differentiating relative to other firms.

And so I think there's a lot of other firms, I don't know, -- how many firms could do a transaction with 3,000 advisors to be recruited? I don't think there's a lot that can do that transaction, not well.

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**Christian Bolu** - - *Autonomous Research*

As a reminder, you can still ask the question if you want by Pigeonhole. Maybe just a couple more here, Rich, more on the macro. Obviously it's been a very volatile environment just broadly speaking in equity markets. How are you -- how are advisor adjusting to that volatility, any impact you've seen in terms of recruiting or retention?

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

Yeah, I mentioned it. We have now seen in the data a bit of a staunching of the movement of advisors. And I mentioned this on our earnings call. Usually for us, what we see in that, is it is not that folks are choosing not to move altogether. They're deferring the movement and it makes logical sense.

Because there's an element when you think about a singular move, not a tape to tape conversion, where advisors don't want to be out of the marketplace for their clients. And while you can make it as seamless as possible, you're usually talking about 30 to 90 days where advisors have

some degree of actions that they've got to take, and maybe an advisor's left back at the previous firm and Liberation Day happens and they feel like they're not there for their clients.

And so you can see, when you see heightened volatility, I think you often see that for a short term duration, and I'm hopeful that we're beginning to move out of that volatility, but you see a short duration of staunching of movement of advisors, and we're seeing that in the data now. We got that data last week. And so I think that's the primary thing.

In terms of advisors, look, ultimately in the end, sustained volatility is really good for advisors because self-directed clients realize they need professional advice. And so we saw that during the pandemic. I would imagine we're starting to see that with our same store sales in the beginning of this year.

You see a movement up in same store sales because you see new clients coming into advisors in larger numbers, and you see less attrition of the clients of the advisors leaving. And so that's usually the ancillary benefit you're going to get is that advisors -- that is a really rich and robust time for advisors to show up for their clients and also to show up for folks who are in an environment that probably doesn't have a rich advice culture.

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**Christian Bolu** - - *Autonomous Research*

Okay, and lastly, just in the business model, nice top line, margins are becoming a part of the story. The model though is inherently prone to equity market and interest rate cycles. How should we think about the business model resiliency to those cycles? And more importantly, are there changes, you envision for the business model over the next sort of three to five years that can help dampen some of that volatility.

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

Well, I mean, you've got some natural hedges in there, right? So when you see equity markets, you may see, -- as you see rich and running equity markets, you may see a pullback in cash levels. Now again, we've been in an anomalous event because we've had heightened rates for a sustained period of time, and so it's amazing we didn't talk about cash at all. I appreciate that.

But I do think you have some natural hedges as you see some pullback in equity markets. Oftentimes that's offset with a flow into cash balances and in heightened percentage in cash balances. And so the business model itself has natural hedges.

As you think about the evolution of the model itself, it's a pretty resilient model. I mean, it's been pretty resilient. And I think the big delta was if I wasn't at an independent player and you're asking that question, I would say the big thing that challenges the model broadly is actually the value proposition of independence relative to that legacy W2 construct that has lower payouts and doesn't have ownership -- book ownership.

But we happen to sit on the side, or my firm happens to sit on the side that is probably the benefited and privileged side of that delta and change in the market.

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**Christian Bolu** - - *Autonomous Research*

With that, I think we'll end it. Thank you very much Rich.

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

Yeah, thank you, Christian. It was great to be here. Thank you so much.

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