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LPLA.OQ - Q1 2026 LPL Financial Holdings Inc Earnings Call

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OVERVIEW:

Company Summary

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Michael Cho *JPMorgan Chase & Co - Analyst*

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Michael Cyprys *Morgan Stanley - Analyst*

Jeff Schmitt *William Blair Capital Partners - Equity Analyst*

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PRESENTATION

Operator

Good afternoon, and thank you for joining the first-quarter 2026 earnings conference call for LPL Financial Holdings Inc. Joining the call today are Chief Executive Officer, Rich Steinmeier; and President and Chief Financial Officer, Matt Audette. Rich and Matt will offer introductory remarks, and then the call will be open for questions. (Operator Instructions)

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

Today's call will include forward-looking statements, including statements about LPL Financial's future financial and operating results, outlook, business strategies and plans as well as other opportunities and potential risks that management foresees. Such forward-looking statements reflect management's current estimates or beliefs and are subject to known and unknown risks and uncertainties that may cause actual results or the timing of events to differ materially from those expressed or implied in such forward-looking statements.

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

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

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

Richard Steinmeier - LPL Financial Holdings Inc - Chief Executive Officer, Director

Thanks, operator, and thank you to everyone for joining our call. It is a pleasure to speak with you again.

It's been a strong start to the year for LPL. We delivered solid organic asset growth and continued to progress and build our recruiting pipeline. We advanced the operational work in preparation to onboard Commonwealth Financial Network, and we made meaningful progress driving improved operating leverage.

We accomplished all this against the backdrop of rising macroeconomic and geopolitical uncertainty and an increasingly loud and often speculative narrative around the role of artificial intelligence and wealth management, whether enabler or disruptor. It's periods like this that serve as a reminder of the value of professional advice, the importance of our responsibility to support our advisors and institutions and the strength and resiliency of our business model.

Okay. Now let's turn to our Q1 results. In the quarter, total assets decreased to \$2.3 trillion as organic growth was more than offset by lower equity markets. We attracted organic net new assets of \$21 billion, representing a 4% annualized growth rate. Our first-quarter business results led to strong financial performance with record adjusted EPS of \$5.60, an increase of 9% from a year ago.

Next, let's turn to our strategic plan and how we are progressing against our organic and inorganic initiatives.

Our vision is clear. We aspire to be the best firm in wealth management. To do that, we remain focused on three key priorities: one, maintaining the client centricity the firm was built upon; two, empowering our employees to deliver exceptionally for our advisors and their clients and three, delivering improved operating leverage. Effectively executing on these focus areas will help us sustain our industry-leading growth while advancing the efficiency and effectiveness of our model.

With that as context, let's review a few highlights of our business growth.

In Q1, recruited assets improved to \$17 billion, a solid outcome in what is typically our slowest quarter of the year. Throughout Q1, we advanced opportunities into the later stages of our recruiting pipeline while pushing the overall pipeline to record levels. We continue to expect the pull-through to improve over the course of the year, supporting improved organic growth.

In our traditional markets, we added approximately \$15 billion in assets during Q1 as we improved on our already industry-leading capture of rates of advisors in motion. With respect to our expanded affiliation models, Strategic Wealth, independent employee and our enhanced RIA offering, we delivered another solid quarter, recruiting roughly \$2 billion in assets.

Turning to overall asset retention, it was 98% for Q1 and 97% over the last 12 months. This is a testament to our continued efforts to enhance the advisor experience through the delivery of new capabilities and technology and the evolution of our service and operations functions. As for Commonwealth, the integration is progressing well. Advisors are completing their diligence. And as they do, we are pleased that many are deciding to stay with Commonwealth.

In terms of asset retention, we are in the mid-80s today, and we continue to track towards our target of 90% retention. At the same time, we are working closely with our Commonwealth partners to jointly map the path forward to ensure we are bringing together the best of Commonwealth and LPL, with several foundational elements we are looking to embrace.

For example, Commonwealth's indispensable approach to advisor satisfaction and their commitment to responsiveness is woven into the fabric of their culture and something that must be preserved. As a key step to enable this, we are developing a comprehensive case management solution to serve as a foundation for an evolved approach to how we route work and communicate progress to our advisors. Modernized platform will connect advisors offices to critical systems from relationship management to service, to operations, to product experience functions helping ensure greater continuity, consistency and follow-through across every step of the advisor experience.

Beyond the work we're doing to prepare for the onboarding of Commonwealth advisors in Q4, we've continued to advance our capabilities to better meet the needs of high net worth individuals. We've expanded the inventory of alternative investment products available on the platform and are delivering more personalized investment solutions through enhanced direct indexing and tax loss harvesting capabilities.

In closing, the first quarter was a strong start to the year, and we feel great about our position as a critical partner to advisors and institutions. As we continue to improve the efficiency of our operations, we are creating capacity to reinvest in growth while driving stronger operating leverage. We believe this positions us to deliver sustained value for both our advisors and our shareholders.

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

Matthew Audette - LPL Financial Holdings Inc - President, Chief Financial Officer

Thanks, Rich. I'm glad to speak with everyone on today's call. As we move into 2026, we continue to advance our key priorities, which include: driving solid organic growth, driving improved operating leverage by enhancing efficiencies and better monetizing the value we deliver, providing a market-leading advisor experience through ongoing investments in our platform, and advancing our M&A initiatives as we continue our preparation to onboard Commonwealth, announced the acquisition of Mariner Advisor Network and continue to execute on our Liquidity & Succession strategy. These efforts resulted in strong first quarter business and financial performance and position us well for the year ahead.

Now turning to a few highlights from our Q1 business results.

Total client assets were \$2.3 trillion, down slightly from Q4 as continued organic growth was more than offset by lower equity markets. Total organic net new assets were \$21 billion an approximately 4% annualized growth rate. As for our Q1 financial results, the combination of organic growth and expense discipline led to adjusted pretax margin of approximately 38% and record adjusted EPS of \$5.60. Gross profit was \$1.593 billion, up \$51 million sequentially.

As for the key drivers, commission advisory fees net of payout were \$487 million, up \$33 million from Q4. Our payout rate was 87.2%, down 80 basis points from Q4, largely due to the seasonal reset of the production bonus at the beginning of the year. Looking ahead, we expect our payout rate will increase approximately 50 basis points in Q2, driven by the typical seasonal build.

With respect to client cash revenue, it was \$460 million, up \$4 million as the growth in average cash balances more than offset the full-quarter impact of short-term rates. Overall, client cash balances ended the quarter at \$59 billion, down \$2 billion, primarily driven by record net buying in Q1.

Within our ICA portfolio, the mix of fixed rate balances ended the quarter at roughly 60% within our target range of 50% to 75%. Looking more closely at our ICA yield, it was 336 basis points in Q1, down 5 basis points sequentially, driven by the full-quarter impact from the Q4 rate cuts. As we look ahead to Q2, based on where client cash balances and interest rates are today, we expect our ICA yield to be roughly flat.

As for service and fee revenue, it was \$211 million in Q1, up \$30 million from Q4, as the benefits from our previously announced fee changes more than offset the seasonal decline in conference revenue. Looking ahead to Q2, we expect service and fee revenue to increase by approximately \$5 million as the previously announced direct mutual fund fees go into effect.

Moving on to Q1 transaction revenue was \$81 million, up \$6 million from Q4 driven by record trading volumes. As we look ahead to Q2, we expect trading activity to normalize and transaction revenue to decline by roughly \$5 million. With respect to other revenue, it was \$4 million in Q1. Going forward, we expect this to be roughly \$6 million per quarter.

Now turning to our acquisition of Commonwealth. As Rich mentioned, the transaction continues to progress well and we remain on track to onboard in the fourth quarter. As for the financials, accounting for the market-driven decline in Q1 assets, we now estimate run rate EBITDA of approximately \$410 million once fully integrated.

Next, let's move on to expenses, starting with core G&A. It was \$532 million in Q1, below the low end of our outlook range, reflecting our continued progress in driving greater efficiency and reducing our cost to serve. For the full year, given our progress to date, we are lowering the upper end of our outlook range by \$20 million. We now anticipate 2026 core G&A to be in a range of \$2.155 billion to \$2.190 billion. To give you a sense of the near-term timing of the spend, we expect Q2 core G&A to be in a range of \$540 million to \$560 million.

Turning to TA loan amortization, it was \$136 million in Q1, up \$3 million from Q4. As we look ahead to the second quarter, we expect TA loan amortization to increase by roughly \$10 million, driven by the strengthening of our recruiting activity. As for promotional expense, it totaled \$76 million in the first quarter, roughly flat with Q4. Looking ahead to Q2, we expect promotional expense to increase \$5 million driven by conference spend.

Moving on to share-based compensation expense. It was \$22 million in Q1, and we expect this to increase a few million sequentially as we head into Q2. Turning to our tax rate. It was approximately 26.5% in Q1, and we expect a similar tax rate in Q2. Regarding capital management. We ended Q1 with corporate cash of \$567 million, up \$98 million from Q4. As for our leverage ratio, it was 1.86x at the end of Q1, just under the midpoint of our target range.

Moving on to capital deployment. Our framework remains the same. Focused on allocating capital aligned with the returns we generate, investing in organic growth first and foremost, pursuing M&A where appropriate and returning excess capital to shareholders. In Q1, we continued to deploy capital in line with our priorities, investing primarily in organic growth and M&A, where we advanced the Commonwealth integration and continue to allocate capital to our Liquidity & Succession solution.

Regarding share repurchases, a reminder that we paused buybacks following the announcement of the Commonwealth acquisition with a plan to revisit following the onboard. Given our progress to date, with leverage slightly below the midpoint of our target range, the operational work to onboard Commonwealth on track and the dislocation in the price of our stock, we opportunistically resumed buybacks earlier this month with roughly \$125 million planned for Q2. We will continue to remain flexible and dynamic with our capital deployment as we advance through the year.

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

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

QUESTIONS AND ANSWERS

Operator

Steven Chubak, Wolfe Research.

Steven Chubak - Wolfe Research LLC - Equity Analyst

So there's been much focus on the structural headwinds to cash flow with anticipated adoption of agentic AI tools. And given the value prop you offer your advisors, both in terms of technology and enhanced service, can you speak to the flexibility on the pricing side if cash balances do remain in structural decline? And have you done any external research or engage with advisors on a potential pivot to a more fee-based model that reduces your reliance on cash monetization?

Richard Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer, Director*

Yeah. Thanks, Steven. So first off, we don't see an imminent risk to further advisor-led cash sorting from AI. But with respect to cash, while the AI and tokenization angle is new, we've heard variations of this question over time.

We are well attuned to the recent developments in the sector and understand the focus on this subject. So you should know we're doing the work to properly assess the opportunities and risks of reducing our reliance on cash sweep economics over time. And as with everything we do, we must ensure we're delivering a fair value exchange with our advisors and their end investors and understand how any change may impact them or position us with prospective advisors, while being cognizant of how our shareholders value predictable recurring earnings rates.

However, while the levers are clear, this is grounded in a lot of complex work. On the one hand, we're a monoline business. So theoretically, it should be straightforward to affect change especially since we don't have to contend with the constraints of operating a bank and all that, that entails.

But on the other hand, we only exist to serve the over 30,000 advisors and over 1,000 institutions that have trusted us with their business in the 8 million American families they serve. We must ensure that any potential changes would work for them and also how it might intersect with other services we are delivering in the broader value exchange.

So maybe to summarize, we're doing the work, which we know is extremely important. However, I would note, it's going to take some time as we work closely with our clients to ensure any potential changes would work for them. We appreciate the question, deeply understand the setup and know that this is top of mind for many of you.

Operator

Alexander Blostein, Goldman Sachs.

Alexander Blostein - *Goldman Sachs Group Inc - Analyst*

I was hoping you could speak to your appetite for incremental M&A vis-a-vis the updated share repurchase outlook over the coming several quarters. as you're getting kind of deeper into the Commonwealth integration. Obviously, very nice to get a deal announced here recently.

So maybe speak to the pipeline, the engagement you see in the channel now for additional M&A? And again, how to think about that versus share repurchases?

Matthew Audette - *LPL Financial Holdings Inc - President, Chief Financial Officer*

Yeah, Alex, I think maybe I'll speak to the near term and then Rich definitely jump in with anything to add on the longer term.

I think more in the near term, Alex, like when you look at our focus on integrating Commonwealth, that's where we're spending our time and energy. So I think from a capital allocation standpoint, what is right in front of us is the opportunities to drive organic growth, which we covered a bit in the prepared remarks on those pipelines building. And then I think they're really clear and compelling returns on buying back our stock.

I think that's more of a near-term dynamic. I think the longer-term dynamic -- maybe I'll turn it over to you, Rich, to touch on this. I think the longer-term dynamic is still quite compelling.

Richard Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer, Director*

Yeah, I think -- thanks, Matt. So I think longer term, look, our core strategy is to drive organic growth, and M&A is an important component of thinking about that holistic growth story.

Historically and continually, we would look at a couple of different categories for M&A. So one would be growing our markets. So broker-dealers and RIAs at different sizes. I think you could look at Mariner as a good example of that, the Mariner Advisor Network. And for us, we've demonstrated that ability to integrate large and complex opportunities and deals better than anyone else.

So second would be our Liquidity & Succession solution, which we've talked extensively about with the ability to help existing and external advisors solve succession needs in ways other firms don't. We'll point that this is a very unique offering in the marketplace for us, and we feel very good about its continued progress in supporting our advisors and opportunistically looking externally.

And then third, where appropriate, we'll look at capability transactions and evaluate whether we should allocate capital to build, buy or partner. So in general, our M&A criteria remains, whether a transaction is a good fit strategically, financially, culturally and operationally, but we'll remain disciplined around this framework as we go forward.

Operator

Craig Siegenthaler, Bank of America.

Craig Siegenthaler - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

So AUM retention rebounded to 98.2% in the quarter, but the advisor count declined by 34%. Now that's a rounding area, but a little curious on what drove that dynamic. And also, how do you expect the financial advisor headcount to trend into year-end?

Matthew Audette - *LPL Financial Holdings Inc - President, Chief Financial Officer*

Yeah, Craig, I'll take that. I think you've got the -- on the Q1 results. That's just a near-term dynamic with respect to Commonwealth. So as we track towards that 90% retention, and we're at in the mid-80s right now, as those folks actually leave, you'll see those come out of head count. So they're still in our headcount until they actually leave. So it's just a little bit of a dynamic there. That was about a net 90 reduction in the quarter from that. So headcount was positive from that.

I think to your question on head count going forward, I think it'd be pretty typically tied to our recruiting efforts as those ramp up. And then just always, I think you asked as we went into the end of the year, just always keeping in mind as you get towards the end of the year, especially November and December, so for Q4, that's a lot of times where you see smaller advisors not kind of get out of the business to not renew their licenses. So that would be something where you could have some headcount noise that really has little to no AUM or NNA impact but that would be typical pretty much every year towards the end of the year.

Operator

Devin Ryan, Citizens Bank.

Devin Ryan - *Citizens JMP Securities LLC - Analyst*

I want to come back to the topic of artificial intelligence and maybe just a broader question. Can you talk about how you're just thinking about implications right now on LPL's model across areas like advisor productivity.

How do you see it impacting demand for advice over time? And then even potentially consolidation towards scale firms or even advisor movement towards scale firms? Just some more color there would be helpful.

Richard Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer, Director*

Devin, it's Rich. Thanks for the question. A lot of questions out there around AI. I think if you look to historically how we've driven the enhanced value exchange and value proposition at the firm, we have consistently invested in tools and technology and services to support advisors throughout the life cycle of their practice. And so not surprisingly, we view transformative technology and specifically AI is an incredibly powerful tool to help our advisors not as a replacement.

We put it into three broad buckets. First will be directly serving the advisor. And so this is where we help them deliver their value to clients and usually helping them accelerate their growth as well. So I think about that like note-taking tools, proposal generation tools, enhancements to wealth planning and portfolio construction. I think we're really bullish there that there is ways to build solutions and integrate them into our core workstation. I think will be very valuable and enhance their value delivery to their clients.

Second bucket would be processing of transactions and tasks to drive straight-through processing. We alluded to these before. This is the automation and made more efficient of actual workflows, transaction types, et cetera, a follow-up. This will lead to more efficient workflows, fewer errors, less manual intervention, while dramatically reducing our cost to serve and improving the advisor experience.

And I think examples in this area, Devin, would be reducing the time and cost of clients, supervision, marketing reviews, et cetera, things that really sometimes fall to the advisor and oftentimes follow to their staff.

And then maybe our last bucket that we think about are the foundational improvements in coding and development. This for us is the ability to materially advance the development and deployment of code inside of our system to modernize our code base and to deliver capabilities more quickly and more robustly.

And so and there, we're leaning on tools like GitHub Copilot, Cursor, QuadCode, et cetera, and are seeing early results that are very encouraging. I think taken together, maybe specifically to address your question, we feel really good about the ability for us to integrate those experiences into our value delivery.

I think that's why you've seen an increasing move of advisors choosing to join this firm for that scale firm in the independent segment supporting advisors and institutions with a differentiated set of capabilities that are fully integrated. And I think the integration of those capabilities are incredibly important in driving efficiency through the advisor's practice.

You marry that with our ability and responsibility to protect our cyber environment through the deployment of AI and enhancement of our controls and governance systems and strengthening our own defenses through AI like reducing the time required to identify and address emerging risks in an increasingly AI-driven threat environment. When you take that together, we feel like this is an extension and continuation of our strategy and not a marked change. We are incredibly excited about how AI will help our advisors as well as our bottom line.

Operator

Michael Cho, JPMorgan.

Michael Cho - *JPMorgan Chase & Co - Analyst*

I just want to touch on M&A and recruiting. I think you mentioned in your prepared remarks about record pipeline exiting Q1 and the expectation of improvement throughout '26. I'm just kind of curious how you think the pace of improvement progresses from here for your recruiting pipeline? And any comments in terms of April since we're at the end of the month anyway.

Richard Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer, Director*

So first, I will tell you, I think we feel really good about -- as you're aware, advisor movement has returned to historical norms. And so we feel good about the environment that we're in, stabilizing with more advisors beginning to move again.

Second, maybe specific to us, given our strong progress with Commonwealth, we're increasingly focusing our recruiting efforts on external opportunities. My interpretation for us was that as we've gotten more and more resources back and available to talk to advisors, I see an increasing responsiveness to the value proposition that we're putting forward in the marketplace.

And so I think as you look throughout the year, and it takes time, and we referenced this before, it takes time to build those pipelines, to progress those pipelines. But now sitting at record levels we feel really good about the progression and about the absolute level of engagement we're having with advisors in the marketplace in a marketplace for which more advisors are moving. So you take that together with the strength of our value proposition, I think it leads us to feel very confident in our ability to deliver those mid- to high single-digit growth over time.

And if you look at that, not just in the near term, but maybe over the longer term, it also supports a long-term systemic leading in organic growth through, one, increasing our win rates in traditional markets; two, further penetration of a wire house and regional employee advisor space, for which we continue to see progression and we're up to capturing now 11% of the advisors in that segment in motion, up from 9% just a couple of years ago.

And then L&S, I'll tell you as we're in conversations. L&S is a critically important component, not necessarily always just at the time of transition, but as us having a unique and differentiated solution in the marketplace for advisors as they think about their options to transition their business. So you pair that with low attrition and steady contribution from same-store sales, and it sets up collectively to hit a high -- sorry, a mid- to high-single-digit growth over the long term as well as the short term.

Matthew Audette - *LPL Financial Holdings Inc - President, Chief Financial Officer*

Yeah. Thanks, Rich. I'll take --. Michael, I think you slipped in two questions there, but we'll do it. I'll do the second question. And I'll cover client cash, too, because I think everybody would also be interested in how April is shaping up there, too. So we'll say if someone else asked done.

So overall, I think everybody knows, but like April -- the seasonality in April, it's typically the -- from an organic growth standpoint, one of the lowest months of the year, if not the lowest month of the year. And then on cash balances, you'll typically see one of the larger declines of the year because of two seasonal factors.

So starting with client cash. And in addition to advisory fees hitting in the first month of the quarter, which is around \$2.5 billion now, given our size, you also have the impact of people paying their annual taxes. That reduced client cash by about \$3 billion this year. So those two seasonal factors together are a decline of around \$5.5 billion.

And then from a cash standpoint outside of that, we continue to see the build that we saw in March. We continue to see the build into April, going up by about \$1 billion. So the net of all that would be client cash down by around \$4.5 billion.

Now on the organic growth side, and those seasonal factors hit organic growth as well and get annualized into that single month. So both taxes -- the impact of tax payments and the impact of advisory fees reduced April organic growth by around 3 percentage points. And then we had a little bit of attrition that was earlier in the quarter from a large practice that left in April that impacted as well.

Now outside of those factors, to what Rich was just highlighting, organic growth has continued to improve as recruiting has continued to pick up. That said, when you put all those factors together for April. We'll probably be in the zone of around 1.5%. But as we move into May and June, as the seasonal factors abate, and to the recruiting point, as the pipelines build and the recruiting starts to come on board, we would expect to see organic growth pick up in May and in June.

Operator

Chris Allen, KBW.

Christopher Allen - *Keefe Bruyette & Woods Inc - Equity Analyst*

I wanted to ask about the Commonwealth EBITDA run rate being lowered. I realized you talked about mark-to-market dynamics. Just trying to reconcile that versus -- with the current market levels, the improvement we've seen so far in April.

I would imagine the EBITDA was as of the quarter end. So would we expect a positive inflection next quarter?

Matthew Audette - *LPL Financial Holdings Inc - President, Chief Financial Officer*

Yeah, Chris, you got it right. So I think the reduction from \$425 million to \$410 million was all market-driven, meaning no changes to expected synergies or things like that. So to your point, if we were to snap the chalk with the market having come back, and that's where it stays until the end of the quarter, I would expect us to be back at \$425 million.

Operator

Benjamin Budish, Barclays

Benjamin Budish - *Barclays Services Corp - Analyst*

Maybe just following up on Chris' question there. So the \$410 million run rate down sequentially based on the market moves, but that is still below the starting point that you disclosed in Q1, Q2 of '25, but the asset level was still higher than that.

So I'm just curious, is there anything else going on under the surface, anything mix related or anything like that, that might be impacting the EBITDA run rate today?

Matthew Audette - *LPL Financial Holdings Inc - President, Chief Financial Officer*

No, not at all. I mean I think I mean we've given updates each quarter on some things that have moved around, but I think the -- the two things that have moved from a market standpoint are going to be the equity market levels and the market levels overall. And maybe the other item just to highlight is cash sweep, which that also has moved around. But that's the only update.

No changes to expected synergies as simply market movements and just reiterating what I just said to Chris. As we sit here today, those things have recovered. So if we were giving an instant update, which we're not, we would be back at \$425 million.

Operator

Michael Cyprys, Morgan Stanley.

Michael Cyprys - *Morgan Stanley - Analyst*

I wanted to follow up on AI and cash monetization. I was hoping you could help unpack why you don't see more risk or risk of more advisor sorting from an AI, curious what informs your viewpoint there.

And then I think you mentioned you're doing some work around reducing reliance on cash sweep economics. So I was hoping you could elaborate on what exactly this work entails? How you're going about your analysis? What factors are you considering and also not considering?

Richard Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer, Director*

Yeah. Let me -- it's Rich. Let me take the first part of that, and maybe I'll take both

So why don't we think it's a risk? I think first, in many ways, the behavior alluding to has already happened. We've seen sustained deal seeking over time and cash allocation today are already at historical low levels. And cash is around \$5,000 per account, which has been hovering there for nearly two years, consistently barring a slight seasonal movements. So the system has been adjusting and what we tend to see is incremental evolution, not step function change, first.

Second, we've always provided advisors with an abundance of options for managing yields on the cash on behalf of their clients. And so we think that this set of offerings, most advisors have adopted that into their practices themselves. And so we don't see behavioral change necessarily occurring, whether a tool will be available or not available.

In terms of the work -- do you want to take the work?

Matthew Audette - *LPL Financial Holdings Inc - President, Chief Financial Officer*

Yeah. Sure. Mike, I just have to unmute myself before I answer. It was a really good answer to start there.

Look, I think on -- in just kind of building on or reiterating what Rich had said. I think when you look at what the changes could be, like we have a straightforward fee-based levers that we can use to manage and sustain our economics. And we've got flexibility in how we price, how we package, how we deliver value across the platform.

But I think the core item and just to reiterate, what Rich had said. Is like we exist to serve our 30,000 advisors and over 1,000 institutions that have trusted us with their business and the 8 million clients that they have, right?

So I think the work that we're describing is all about ensuring any potential changes would work for that and how that would intersect with other services that we're delivering. So that's what I would just underscore. We've got the levers. It's more about what could work for our clients, and that's the work that we have in front of us.

Operator

Jeff Schmitt, William Blair.

Jeff Schmitt - *William Blair Capital Partners - Equity Analyst*

So one more question on the run rate EBITDA for Commonwealth. What are you assuming for synergies in that estimate that would materialize, I guess, mostly next year? And just what are a few of the biggest drivers of those synergies?

Matthew Audette - *LPL Financial Holdings Inc - President, Chief Financial Officer*

Yeah, Jeff. There's no change there. And I think they are the ones that we had covered in the beginning. So they're pretty common from a revenue side when you get things onto our custody and our clearing platform, whether it be cash sweep as well as the sponsor related revenues and then you get your typical expense synergies of being on our platform in our self-clearing platform on that side, too. So they're the -- I think the synergies that you would expect and no change there.

Operator

Mike Brown, UBS.

Michael Brown - *UBS AG - Equity Analyst*

I just wanted to ask another one on AI and AI disruption risk, but maybe more from the risk to the advisor and not from the cash angle. But I think over time, advisors have continued to really prove the value to their customers. But the transformative potential of AI is tough to ignore here.

So could you maybe speak to the risk of AI impacting that traditional advisor model with some of these AI-centric platforms and capabilities that are kind of rolling out in real time? Could we see client behaviors shift to prefer models like this, especially if the economics are more favorable? And how are you kind of thinking about defending the turf of the traditional advisor model?

Richard Steinmeier - *LPL Financial Holdings Inc - Chief Executive Officer, Director*

Thanks, Mike. It's Rich. I think first, what we see historically is that the pies that bind in a relationship are between the advisor and their clients. And those aren't necessarily because of efficiency of the delivery of the experience. More often than not, it's because of a trust and extended relationship that for many has extended over years and oftentimes decades.

So when we look at the potential for the enhancements to the technology, we see things that actually may commoditize everyday low-value experiences, make them more efficient for the advisor. We see things that allow the personalization of the experience between the advisor and the client to enhance. And more often, what I would say is we'll see more time available to actually serve clients, more insights available to work with those clients.

The ability to deliver them where I think you're going to see more of advisors' time spent with clients, but also more of their staff and their team time in support of those and oftentimes their teams moving away from mundane task delivery into higher value added. I think you see the opportunity there for a significant enhance in the delivery of the EQ element of the advisor experience while you see a commoditization of some of the IQ elements that being portfolio construction, risk remediation, et cetera, but with a personalization opportunity that is dramatically enhanced.

And so we are running headlong into those enhancements through AI that propped the advisor up. And I think we see cases even in the services industry. When you look at radiologists, I think there was a belief that radiologists were going to be minimized with the application of AI and the reading of scans. But in fact, what you see is there are more radiologists today than there were 10 years ago because there are more high value-added services being provided in that experience as well as more folks getting scans.

I think you might see an opportunity for advisors to more broadly serve more clients with deeper personalized advice through tools who help them be more productive. And in that regard, those are the applications that we're running at with advisors in partnership with them. And so we don't see the risk exposure nearly as much as we see the opportunity side of that equation.

Operator

(Operator Instructions) Wilma Burdis, Raymond James.

Wilma Jackson Burdis - Raymond James - Analyst

Just a quick one on the payout ratio. It was 87.2% in 1Q, up about 40 bps from just year over year and then compared to also '24. Can you go into some of the drivers and is it related to recent acquisitions or Commonwealth or anything along those lines? Or what else could be driving it?

Matthew Audette - LPL Financial Holdings Inc - President, Chief Financial Officer

Yeah, Wilma, that was the primary driver. It was Commonwealth. So a couple of things were related to Commonwealth. One, on average, they have advisors with larger AUM. So the payout is higher. And then there's a little bit of noise that's unique to Q1 and the way that our payout works for the production bonus that builds throughout the year, they don't have that. So the mix impact of their payout being higher is most notable in Q1. And now that we've closed on the acquisition, you see that noise in Q1.

And then a secondary item, I'd say relatively a minor driver of it. Just keep in mind the payout was driven off of advisory fees that were snapped if we will, at the end of the year when asset levels are much higher. So for those larger advisors where there's a tiered pricing impact where they get discounts, the larger they are, you had a little bit of that happen as well. But the primary driver is the Commonwealth noise as you suspected.

Operator

Michael Cho, JPMorgan.

Michael Cho - JPMorgan Chase & Co - Analyst

I just had a quick follow-up on G&A. You talked through G&A and efficiencies and you pulled down the top end of the guide. I was wondering if you could just unpack a little bit more on where the efficiency gains, I guess, were maybe in the quarter? And how we should think about those efficiency gains as you progress through the year in terms of areas for more potential there versus maybe other areas of more organic investment that you're considering?

Matthew Audette - LPL Financial Holdings Inc - President, Chief Financial Officer

Yeah. I mean I think broadly on where we're investing is continues to be at the highest level investments to drive advisor capabilities, our technology, drive organic growth overall, combined with investments to drive efficiency.

And I think maybe just to give you a little bit of examples on the efficiency side and building on what Rich talked about a little bit earlier on AI. That's been a big driver of it, and it's a big component of our plans for the year.

So if we take those kind of three areas that we're talking about for AI, for advisor capability for our own internal operations and efficiency. And then third, our ability to develop technology faster. I'll just focus in on that second area the opportunities internally in areas like service and operations. And that's where it's really exciting because not only does it drive the cost story that you're asking about. It also drives an improvement materially better advisor experience that I think ultimately puts us in a better place to drive growth as well.

But just to give you some examples on the expense savings and what we're doing. Rich touched on it in the annuities area. We're the largest distributor of annuities in our space. And it is a very manually intensive process, and that's where we've been able to deploy AI to not only streamline the costs associated with it but also increase the pace at which we can improve annuities as an example.

Within service, and these are probably some of the more expected examples, but being able to provide tools to our advisors to do natural language search, build out AI-enabled chat. So rather than having to call us, they can ask questions to get those answers themselves. And then for the service team themselves, so our team, delivering tools to them so they can answer questions more quickly, more accurately with AI on their side.

And then maybe last and one that I think has a big opportunity is just on the operations side. And this is where the agentic AI that everyone loves to talk about becomes real where you can do things like non-ACAT transfers, which are intensely manual. And you can deliver agentic AI that can cut cycle times there by significant amounts. I'm talking 90% of the time can be reduced. So not only are you lowering the cost, you're actually improving the experience to move those in, especially when they're transfers in.

So those are just some examples. I think the broad point, a little bit to your question, is we're still in the early innings of this. So not only do we have a nice road map that we're building out this year. This is an ongoing opportunity in '27 and beyond as well. So we're excited about it.

Operator

Steven Chubak, Wolfe Research.

Steven Chubak - Wolfe Research LLC - Equity Analyst

Thanks for accommodating the follow-up. So wanted to ask about the long-term NNA outlook beyond the Commonwealth integration. Across multiple questions, you spoke about low advisor attrition, record pipelines, steady contribution from same-store sales. Now how does that inform what you believe is an achievable organic growth rate? And separately, if you can just provide an update on the enterprise opportunity and how that pipeline is tracking.

Richard Steinmeier - LPL Financial Holdings Inc - Chief Executive Officer, Director

A follow up with a double dip in it, and I'll take that. So on the first one, Steven, I think that when you take all of that together, I alluded to it a little bit earlier, we do believe that we should be able to sustain mid- to high-single-digit growth rate over the long term. I mean we have what we believe is the strongest value proposition in the marketplace.

And I think as we get into recruiting more actively back into the recruiting market, what I see in the pipeline, what I see in HOVs, what I see in directly engaging with advisors is that, that value proposition resonates significantly in the marketplace. And you can hear it even from third-party recruiters, as we're back engaged, I think they feel bullish about our ability to really move back into the position we have historically been, which is the leader in capturing advisor movement and extending that share capture over time.

I actually think as you think through, even the application of AI and the enhancements that we're going to make in an integrated system that allows all of that not to be in a swivel chair environment, but the AI largely to be integrated into our core operating systems, I think

you're going to see that value proposition further extend relative to our historical competitors. I think you're going to see us strengthen even more.

So when you put that all together, I think we feel like we have a value proposition that is strong, we see it resonating in the marketplace, and we see it strengthening in time, that reiterates our belief in that sustained mid- to high-single-digit growth rate.

Now you asked about the institutional segment as well. And I think on the institutional segment, we are the leader in that partnership in the institutional market. We have demonstrated it over decades of delivering experiences to help firms who want to advance their wealth management business.

We have done that first in the financial institution segment, where we have asserted and sustained leadership in supporting banks and credit unions in support of their wealth management businesses. And then we've extended that into adjacent opportunities in the marketplace, most notably recently with insurance and product manufacturers.

And I would point out Prudential, who converted a little over a year ago, who, by their measures, their business is stronger. We see it in terms of them thriving. We see it in terms of financial performance as well as their attractiveness in the marketplace, and then recruiting advisors into their platform. That has a ton to do with them, maybe less so to do with us, but we feel great about how the Prudential delivery allows us to be more active in the marketplace in conversations on the institutional segment.

And so across banks, look, some of that's going to be opportunistic. And as we mentioned maybe last quarter, there's a little bit of overhang in some of those discussions just because of the movement in M&A that exists inside of financial institutions at this moment. We see increasing conversations with long lead times in the institutional segment. But I think we feel good about the ability for that to be a meaningful contributor that adds on to that organic growth is pretty consistent inside of the advisor movement segment.

So having those two different killer growth strategies to drive the movement of advisors to the strongest value proposition in the market, plus the ability to be strong partners to institutions as they look to outsource and partner, I think we feel good about having two anchors to drive that growth and reinforces our belief in that mid- to high-single-digit growth over the long term.

Operator

Thank you. This does conclude the question-and-answer session of today's program. I'd like to hand the program back to Rich Steinmeier for any further remarks.

Richard Steinmeier - LPL Financial Holdings Inc - Chief Executive Officer, Director

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

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

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