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LPLA.OQ - Q1 2022 LPL Financial Holdings Inc Earnings Call

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OVERVIEW:

LPLA reported 1Q22 gross profit of $669m and EPS of $1.95.

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PRESENTATION

Operator

Good afternoon, and thank you for joining the First Quarter 2022 Earnings Conference Call for LPL Financial Holdings Inc. Joining the call today are our President and Chief Executive Officer, Dan Arnold; and Chief Financial Officer, Matt Audette. Dan and Matt will offer introductory remarks, and then the call will be opened 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 risk 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 disclosure 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 now turn the call over to Mr. Arnold.

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Thank you, Howard, and thanks to everyone for joining our call today. We entered 2022 with a continued focus on our mission of taking care of our advisers so they can take care of their clients. As we progressed through the first quarter, market volatility and geopolitical uncertainty increased. In conditions like these, the value our advisers provide to their clients is reinforced by helping them to navigate through times of uncertainty. Their work to provide personalized financial guidance to millions of Americans when they need it most highlights the importance of LPL's mission. It also shines a light on the pivotal work of our employees who take care of these advisers every day. Guided by this north star, we worked together to deliver another quarter of solid business and financial results while continuing to make progress on our strategic plan.

I'd like to review both of these areas, starting with our first quarter business results. In the quarter, total assets decreased to $1.16 trillion as continued solid organic growth was more than offset by lower equity markets. With respect to organic growth, the business continued to perform well despite market volatility. First quarter net new assets were $18 billion, which translated to 6% annualized growth, driven by solid new store sales, same-store sales and adviser retention. These results contributed to an 11% organic growth rate for the past 12 months.

Looking at recruited assets, they were $10.4 billion in Q1, which prior to onboarding large financial institutions, was a new high for the first quarter of the year. These results were driven by the continued enhancement of the appeal of our model and the efficacy of our business development team. Looking at same-store sales, they remained solid in the first quarter as our advisers continued to focus on serving their clients and differentiating their solutions in the marketplace.

With respect to retention, we further enhanced the adviser experience through the continued delivery of new capabilities and technology as well as the ongoing modernization of our service and operations functions. As a result, asset retention was approximately 98% in the first quarter and over the past 12 months. Our first quarter business results led to solid financial outcomes with $1.95 of EPS prior to intangibles and acquisition costs, an increase of 10% from a year ago.

Let's now turn to the progress we made on our strategic plan. As a reminder, our long-term vision is to become the leader across the entire adviser-centered marketplace, which for us means being the best at empowering advisers and institutions to deliver great advice to their clients and to be great operators of their businesses.

And to bring this vision to life, we are providing the capabilities and solutions that help our advisers deliver personalized advice and planning experiences to their clients. At the same time, through human-driven, technology-enabled solutions and expertise, we are supporting advisers in their efforts to be extraordinary business owners. Doing this well gives us a sustainable path to industry leadership across the adviser experience, organic growth and market share.

Now to execute on our strategy, we have organized our work into 4 strategic plays, which I'd like to review in turn. Our first strategic play involves meeting advisers and institutions where they are in the evolution of their businesses by winning in our traditional markets while also leveraging new affiliation models to expand our addressable markets. Our recruiting in traditional markets continued to be a significant source of growth in Q1 with approximately $7 billion in assets. In the quarter, we continued to increase our win rates and expand the depth and breadth of our pipeline despite adviser movement in the industry remaining at lower levels.

With respect to our new affiliation models, Strategic Wealth, Employee and our enhanced RIA offering, we recruited nearly $3 billion in assets in Q1. And this quarterly total was a new high for these models and reflects the increased diversification of our recruiting. In each of these 3 models, we continue to see growing demand and expanding pipelines, which position them for increased contributions to organic growth going forward.

The large financial institutions market was a new source of recruiting in 2021 with the addition of BMO Harris and M&T. For 2022, CUNA is on track to join later this quarter, and we are prepared and ready to onboard their approximately 550 advisers located across almost 300 credit unions who serve $36 billion of brokerage and advisory assets. Also within this year, we will onboard People's United Bank, which was acquired by M&T and includes approximately 30 advisers serving $6 billion of brokerage and advisory assets.

For these institutions, we will use new innovations that will make it easier to transition to LPL and, in turn, help make our offering even more appealing and ultimately contribute to future growth. As we look ahead at the market opportunity for large institutions, we continue to see our pipeline build as demand for our model grows.

Our second strategic play is focused on providing capabilities to help our advisers differentiate in the marketplace and drive efficiency in the practices. As part of that focus, in 2022, we are continuing to enrich our wealth management platforms, including the enhancement of our advisory solutions in alignment with the secular trends towards advisory, which continues in our business and across the industry.

For example, in the first quarter, we expanded the investment options available in our centrally managed platforms by integrating separately managed accounts. Doing so makes it easier and more efficient for advisers to leverage separately managed accounts, which can drive higher utilization and further growth of centrally managed platforms. As a result, this enhancement increases our advisory platforms' value to both existing and prospective advisers.

So let's next move to our third strategic play, which is focused on creating an industry-leading service experience that delights advisers and their clients and, in turn, helps drive adviser recruiting and retention. As a reminder, over the past 2 years, we have transformed our service model into an omnichannel client care model, which includes voice, chat and digital support, thus giving advisers flexibility for when and how they access service. We continue to fine-tune this model to drive additional efficiency and an enhanced experience for our advisers.

Now for the next phase of our transformation, we are focused on expanding and enriching specifically our digital support in order to provide greater flexibility, speed and accuracy for our advisers. As an example, we are developing end-to-end digital experiences in core clearing functions, including money movement, account opening and account transfers, which collectively drive the majority of our service center activity. Now by streamlining our core clearing functions, we believe that we can enhance service levels, delight advisers and increase the scalability and efficiency of our platform going forward.

Our fourth strategic play is focused on developing a services portfolio to help advisers run the most successful businesses in the independent marketplace and provide comprehensive advice to their clients. One of the key components of this play is our Business Services portfolio, which helps advisers more effectively operate their businesses so they can focus on serving their clients and growing their practices. Our subscription base continued to grow, ending the quarter at nearly 3,500, which more than doubled year-over-year, demonstrating increasing demand and appeal.

Now as we work with advisers on existing solutions, we are leveraging our learnings and insights as a catalyst for new solutions as well. Examples of this include our new bookkeeping solution, which is currently in pilot, as well as our enhanced Admin Solutions offering, which provides a next-generation tech-enabled task management system. And we also continued to make progress on the opportunity that we introduced last quarter to help advisers provide comprehensive financial advice and planning solutions.

Our first offering, Paraplanning, has generated solid initial momentum in the marketplace. Our approach is to give advisers a scalable platform to efficiently and effectively deliver more financial plans and access greater expertise that helps them deepen their client relationships. We launched this offering in January. And by the end of Q1, we had approximately 60 subscribers. And at the same time, we continue to work to expand this portfolio, including solutions like tax planning and high net worth solutions. As we look ahead, we remain focused on innovating and expanding our services portfolio, which in turn positions us to drive additional gross profit and organic growth over time.

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

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

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

All right. Thank you, Dan, and I'm glad to speak with everyone on today's call. As we move into 2022, we remain focused on serving our advisers, growing our business and delivering shareholder value. While the market backdrop was volatile, we delivered another quarter of solid net new assets and earnings growth. In addition, we are preparing to onboard two large financial institutions this year with CUNA and People's United Bank. So as we look ahead, we continue to be excited about the opportunities we have to help our advisers differentiate and win in the marketplace and grow our business.

Now let's turn to our first quarter business results. Total advisory and brokerage assets were $1.2 trillion, down 4% from Q4 as continued organic growth was more than offset by lower equity markets. Total net new assets were $18 billion or a 6% annualized growth rate.

Looking more closely at recruiting. In Q1, recruited assets were $10 billion, which prior to large financial institutions, was a new high for the first quarter of the year and brought our 12-month total to $76 billion.

Moving on to our business mix. We continued to see positive trends in Q1. Advisory net new assets were $17 billion or an 11% annualized growth rate. With this growth, our advisory assets reached a new high of 54% of total assets as we continue to deliver differentiated capabilities and benefit from the secular trend towards advisory.

Now let's turn to our Q1 financial results. Organic growth, combined with expense discipline, led to EPS prior to intangibles and acquisition costs of $1.95, up 10% from a year ago. Looking at our top line growth, gross profit reached a new high of $669 million, up $26 million or 4% sequentially. Looking at the components, commission and advisory fees net of payout were $227 million, up $27 million from Q4, primarily driven by higher advisory fees and seasonally lower production bonus expenses.

In Q1, our payout rate was 86.1%, down about 150 basis points from Q4, largely driven to the seasonal reset of the production bonus at the beginning of the year. Looking ahead to Q2, we anticipate our payout rate will increase to the low 87% range, primarily driven by the typical seasonal build in the production bonus. I would also note, we expect the payout rate to increase following the onboarding of CUNA. But given the timing of when they join, we expect to see that increase mainly in Q3.

Moving on to asset-based revenue. Sponsor revenue was $212 million in Q1, down $8 million sequentially as average assets decreased during the quarter, driven by lower equity markets.

Turning to client cash revenue. It was $85 million, up $3 million from Q4. This was primarily driven by the March rate hike, which more than offset expected fixed rate contract repricing.

Looking at overall client cash balances. They were $62 billion, up $5 billion from last quarter. Within our ICA portfolio, as expected, in Q1, we renewed a $1 billion fixed rate maturity into a new 4-year contract. In addition, in March, we were able to add floating rate capacity, which drove a roughly $3 billion increase in ICA balances.

Looking more closely at our ICA yield. It was 102 basis points in Q1, up 1 basis point from Q4. As a reminder, our ICA balances are primarily indexed to Fed Funds, so the ICA yield benefited from the March rate hike for the last 2 weeks of the quarter. As we think about our Q2 ICA yield, and prior to any changes in interest rates, we would expect an increase in yields on our floating rate balances as we see the full benefit of the March hike, while yields on our fixed rate portfolio will adjust for the renewal in Q1. The net effect is we expect our Q2 ICA yield to increase by a couple of basis points.

Now let's turn to service and fee revenue, which in Q1 was $113 million, up $2 million sequentially. This was primarily driven by continued growth in our Services Group revenue and the seasonal increase in IRA fees. Looking more closely at our Services Group, which includes Business Services and Planning and Advice Services, we ended the quarter with more than 3,500 subscriptions, which is up about 500 from last quarter and roughly double a year ago. Our Services Group now generates roughly $30 million of annual revenue while also contributing to organic growth by helping drive recruiting, same-store sales and retention. Looking ahead to Q2, we expect service and fee revenue to decrease by a couple million sequentially, driven by seasonal declines in IRA and conference fees.

Moving on to Q1 transaction revenue. It was $47 million, up $7 million sequentially due to increased trading volume from equity market volatility. As we look ahead to Q2, volumes in April have pulled back from elevated Q1 levels, which on a run rate basis would result in a decline in transaction revenue of around $5 million from Q1.

Now let's turn to expenses, starting with core G&A. It was $281 million in Q1. Looking ahead, we plan to stay disciplined on expenses while continuing to invest to drive growth. I would also note that with People's now planning to join in the second half of this year, we anticipate up to $5 million of additional core G&A in 2022 to support this new large financial institution.

Moving on to Q1 promotional expense. It was $87 million, up $1 million sequentially, primarily driven by transition assistance, large financial institution onboarding and conference spend as we had two of our largest conferences of the year in Q1. Looking ahead to Q2, we expect promotional expense will increase by a couple million sequentially as we anticipate increased costs from transition assistance, and large financial institution onboarding will be largely offset by lower conference expense.

Now let's move to Waddell & Reed. The integration is on track to be substantially complete by the end of the second quarter. With respect to run rate EBITDA, it was roughly $70 million in Q1, and we now expect the run rate EBITDA benefit to be at least $95 million by the end of Q2.

Turning to depreciation and amortization. It was $45 million in Q1, up $5 million sequentially. Looking ahead to Q2, we expect depreciation and amortization to increase by a few million sequentially.

Moving on to capital management. Our balance sheet remained strong in Q1 with a leverage ratio at 2.16x and corporate cash of $270 million. As for capital deployment, our framework remains focused on allocating capital aligned with the returns we generate: investing in organic growth, first and foremost; pursuing M&A where appropriate; and returning excess capital to shareholders. In Q1, we allocated capital to both organic growth and share repurchases, buying back $50 million of our shares. As we look ahead to Q2, we will remain focused on our capital allocation priorities. I would note, we expect an increase in capital deployed for organic growth with the onboarding of CUNA and the related transition assistance that will be paid during the quarter. We also anticipate continuing share repurchases likely at a similar level as we did in Q1.

As we look ahead to the second half of the year, and if interest rates continue to increase as market expectations would imply, we would have additional capital to deploy. Our framework for deploying capital is unchanged and would focus on organic growth, first and foremost, pursuing M&A where appropriate and returning excess capital to shareholders. We will, of course, remain flexible and dynamic as our capacity and opportunities to deploy capital evolve.

As a final point, I want to share that we've scheduled our next Investor and Analyst Day for Wednesday, November 16, in New York City. We look forward to providing more details as we get closer to the event.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question or comment comes from the line of Alex Blostein from Goldman Sachs.

Alexander Blostein - *Goldman Sachs Group, Inc., Research Division - Lead Capital Markets Analyst*

Maybe we'll start with the ICA dynamics. Great to see incremental bank pick up demand a bit here, obviously, on the variable side of things. As we think through the cycle, you guys have significant amount of cash still sitting in money market funds as really a form of sort of the overflow, I guess, because bank demand wasn't there for the last couple of quarters. How are you thinking about the ability to transfer them back into ICA, especially when money market fund yields feel like will start to rise and are already higher than what clients would be able to get in their kind of ICA cash balances?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes, Alex. And I think I'll hit just kind of cash sweep dynamics overall that I think will hit on the exact point you asked there. And I think you highlighted the money market balance is really a function of overflow as opposed to rate-seeking behavior. But I think, first, on your point on demand with third-party banks, I would just emphasize that we're really starting to see demand pick up, right? You've seen the fixed rates that we were able to put together, put in place the last few quarters. I'd just emphasize, this quarter, we were able to add $3 billion in balances from new variable contracts at competitive rates, right? Fed funds flat on the variable side, and those fixed rates were really at the relevant point on the curve when we put those in place.

And maybe even just as important to note, like we're really early in the Fed tightening cycle, right? Only one increase so far, haven't started to shrink the balance sheet yet. I'm sure you saw the consumer spending numbers come out. Those are picking up. Lending is picking up. And I think those are all things that, over time, would likely lead to further pickup in demand. So I think sitting here today, I think we're more optimistic about demand continuing to pick up than we have been in a while for the reasons that I just said.

I think, to your point on the balances themselves in a rising rate environment, sitting in the money markets that are really overflows, I think the key is just the nature of the cash balances that we have. I don't know if you saw it, but we added a page in our Key Metrics on Page 18 that gives us, I think, a nice illustration of that, which is the cash in our cash sweep is largely operational, right? It means it's cash available for rebalancing, for paying fees, customer withdrawals. And I think that's why you see it as one of the lowest cash as a percent of AUM really in our industry, in that 5% zone.

And the key thing to your question that really tends to move that percent up or down is really market sentiment, not rate-seeking behavior. And I think you can see that on the chart. When there's elevated volatility, folks call it in risk-off mode, right, you see those balances get up in the 7% zone as an example at the start of the pandemic. And then on the other end of the spectrum, when they're fully deployed or in risk-on mode, if you will, you see that cash get down to, call it, the 4% zone. You saw that if you look in the 2019 time period, again, market sentiment-driven, not really rate-driven.

The other thing I'd note is, back then, back in 2019, more than half of our assets were in brokerage accounts. And those tend to have less cash, right? So if you look at where we are today, the majority of our assets are in advisory accounts that tend to have more cash. So if you adjust for that, kind of think of that low point that was at 4%, it's probably closer to 4.5%. And we're sitting at 5.3%, so -- with volatility actually rising. So I think those are the big drivers.

And then I know you didn't ask about it. But on deposit betas, I think like you've heard from most folks, we don't see anything pointing to a change in the price sensitivity of these deposits. So what we saw last cycle, I think, is a good way to think about betas, which low in the early part of the cycle, I think 2.5%, higher as you get deeper in the cycle, I think 25%, with an overall average around 15%.

So those are probably the big 3 dynamics, Alex. And I think as we think about going into this cycle, I think we feel pretty well set up on the cash sweep cycle.

Alexander Blostein - *Goldman Sachs Group, Inc., Research Division - Lead Capital Markets Analyst*

Great. I guess just to kind of wrap this up, though, and I don't want to put words in your mouth, but is your expectation to move ultimately all the money market accounts back into ICA, assuming that the bank demand is there?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. I think the way I think about it, for operational cash, right, the product is a bank product. And you have a pandemic dynamic where the demand wasn't there. For folks where they have, call it, rate-seeking cash or investing cash, we have separate products for those. And people -- and those are available and they can put that money there. That's just not really the primary nature of this cash. It's really operational.

Operator

Our next question or comment comes from the line of Bill Katz from Citigroup.

William Raymond Katz - *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

Okay. Maybe sort of start with Business Solutions. Great to see a combination of just strong absolute growth quarter-to-quarter. And then also, I did pick up on the PAS picking up about 63 subscriptions in the quarter. Can you unpack that a little bit more, just sort of where you're seeing the success, cross-sell of -- across financial advisers and within PAS? Is that being sort of cross-sold to those that already have Business Solutions subscriptions or new? Just trying to get a sense of sort of penetration and growth in front of us.

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Yes. Bill, it's Dan. It's a great question. And I think as we step back and look at the opportunity set, it's too whole to spin the offering across a broader set of our advisers. If you think about 3,500 subscriptions, that may cover roughly 2,000 advisers. And so you've got lots of opportunity, if you will, to expand the offering across our client base, one.

And then two, as they have success with one of these services, then it's very logical that they would explore the extension of that relationship to engage in another service. And so we do believe that certain different profiles of advisers could have as many as 2, 3, as many as 4 of these relationships if they truly are leverage points that drive performance in their businesses. And so I think that's the right sort of dynamic that you identified in terms of the opportunity set.

As we look at it today, most of them are advisers that have one relationship. We've seen great success, as an example, with the original CFO solution, which ended up creating more value than just that financial acumen that sometimes advisers need and want to leverage. It actually provides additional strategic leverage that really helps them think about a broad-based set of challenges and considerations and decisions they have to make across the businesses. And if you've got a partner that brings that outside-in thinking and complements their perspective, then I think they get great value out of enriching the decision they make about their businesses. So that's one that we find continuing, sort of growing in understanding around the value of it. And then happy clients share that with other clients and talk about their pragmatic experiences around it that gives an example of a solution like that great momentum. And so that's maybe just a click down to highlight one of the solutions.

So I think on the other side, this new category we just opened up around the planning concept, that's all about providing holistic advice and how do we help advisers do that in order to help them differentiate and grow. And we went right at a big challenge out in the marketplace, which is, hey, if I got a client book of 300 clients, and I only have been able to do 30 plans for those clients because of the complexity and the time spend, et cetera, not only to set them up but to support them going forward, if I've got a leverage point and a resource that can help me do that, and I can take that from 30 to 200 relationships within my book, well, then now I've opened up a much, much broader orientation to my client relationship that creates a whole lot more solutions for me to solve for, which creates real value and helping me grow a relationship.

It also gives me a long-term orientation to that client relationship where I can make sure we're executing on that plan every year. We hit new life events, I step in to add more value. So it's really meant as a big time transformer, if you will, into the orientation of client relationships that create much more opportunity over the long haul. So that's why we think that one is so important.

And you can see then the residual kind of services that we could build around Paraplanning. And that's why we talked about tax planning, estate planning, high net worth solutions. You can just really add to that baseline Paraplanning a lot of complementary services. So that may give you a little bit of a framework, at least, for the growth potential as well as, I think, the 2 categories of solutions we have and a little bit of a pragmatic example on each side.

William Raymond Katz - *Citigroup Inc., Research Division - MD & Global Head of Diversified Financials Sector*

Great. And then, Matt, just my follow-up, coming back to maybe rate sensitivity a little bit. Can you talk a little bit about where your head's at in terms of migrating from float to fixed, just given the shift of rates? I appreciate the belly of the curve is sort of flattish at some point. And also, you had mentioned that you picked up a contract that Fed funds flat. And I think that compares to sort of Fed funds plus 20, 30 basis points in the past. Would you envision, as demand for deposits rises, that, that spread might re-widen along the way?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Sure, Bill. I mean I think on the fixed rate appetite, I think our view there is really unchanged, right? I think if there's demand, and it's up to us on how much to fix out, that 50% to 75% zone is the zone that we want to be in. And I think when we're early in a cycle, I mean, there's some -- and the yield curve is starting to move up, I think we want to be on the shorter duration side and closer to that 50%. Now the opportunities aren't there, right, because the demand is still limited from the bank side. But if we're able to execute, I think it would be the same strategy that we had articulated before. So we'll look to see if demand comes back or how quickly that comes back.

On the variable rate side, I think -- yes, I think in this environment where there's still this amount of liquidity, I think Fed funds -- around Fed funds flat, I think, is what you should expect to see for a while. Once you're in a place where there is demand -- full demand for the deposits, I think that is the point where you would start to see spreads widen. So the question is just how quickly does that happen. That's hard to know, but I think the spreads probably don't start to widen until your demand has fully been there.

Operator

Our next question or comment comes from the line of Brennan Hawken from UBS.

Brennan Hawken - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Financials*

Yes. So just a quick question here on the expectation around 2Q ICA yield improvement only going up a few bps. Is that only based, Matt, on what we've seen so far from the Fed? Because the forward curve is telling us that May and June are not only alive, they're likely to both be 50.

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. No, absolutely. That's prior to any additional rate increases. And then I think you can see the sensitivities that we've put out on if those increases do occur, you can see the math that flows out of that. But that was just to give you kind of a baseline of where we are before any more hikes.

Brennan Hawken - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Financials*

Perfect. Okay. And then the -- appreciate you referencing Slide 18 because that was going to be something I was going to explore. Have you looked at what that rate looks like, the percentage of cash -- percentage of client assets in cash when you add also some of the purchased money market funds and other products that you all have available on the platform and how that might change over time and under different interest rate environments?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. Brennan, I think if you go back a couple of pages on Slide 16, you can see that we've got the purchased money market funds on that chart. So you can see that data. But the thing I would emphasize is back to the rate sensitivity of these balances, and it's just not rate-sensitive cash. It is that operational cash that is used for rebalancing, for paying fees, the balances themselves, right? If you just look at where we ended Q1, on average, it's $8,000 per account. So it's just not the type of cash that's looking for investment. It really is there to facilitate those things.

So I think when you look at Slide 18, we think the primary driver is really where the equity markets are and whether that cash is fully deployed or not and not primarily driven by rates.

Brennan Hawken - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Financials*

Yes. Okay. That's all really fair. It's -- of course, understanding all of that, it's just that we've seen -- given the rapidity of hikes, the fact that it could move so quickly, certainly, you guys are using the money market fund sweep to a greater degree. And so if it shifts over, it could be a bigger change. And there's been another competitor that went through a transition from money market to bank account, and it led to some disruption in the last cycle. So that's probably why there's a bit more attention there.

Operator

Our next question or comment comes from the line of Steven Chubak from Wolfe Research.

Steven Joseph Chubak - *Wolfe Research, LLC - Director of Equity Research*

So wanted to ask a follow-up, sorry to beat the dead horse of Slide 18. But we've gotten some questions, and there was some confusion I wanted to clear up specifically around how to think about cash growth this cycle versus last cycle. So a lot of folks are looking at this slide and seeing that cash balances themselves in the last tightening cycle didn't grow very much, were essentially stable. But of course, this time around, your organic growth profile is much stronger. And I was hoping you can speak to what would support better organic cash growth this cycle relative to last. And how you're just thinking about the cash algorithm generally would be really helpful.

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Sure. I mean, I think there's a couple of things to highlight. I think on the organic growth, right, and I talked about it a little bit earlier, maybe if you heard, but the -- our growth continues to be more and more in advisory, which has higher cash balances, right? So when you think about organic growth continuing to pick up, maybe if you're looking at the slide on the right-hand side of it, that's where advisory growth has picked up more versus the left-hand side. So I think that's one thing to factor in.

And then second, I think when you look at the last cycle, I think -- and it's not on the chart, but again, the key driver is equity market movements or overall market sentiment. And maybe if you hone in on -- in the end of 2018, early 2019, you can see that spike up to 5.6%, right, still at the peak of the rate environment. That's because you had equity market drops. And then, of course, moving over the right further, when you pick up in Q1 '20 to 7.1%, you have the beginning of the pandemic.

So I think what this chart shows is the thing that meaningfully moves that cash is really market sentiment and less so interest rate sensitivity. And to the point on your question, continuing to grow more and more on the advisory side overall is going to buy us that percentage to be up slightly as well.

Steven Joseph Chubak - *Wolfe Research, LLC - Director of Equity Research*

That's great. And then my follow-up, maybe for Dan, I was hoping you could just speak to how the M&A landscape is evolving and whether you have increased acquisition appetite. As the current macro backdrop, taking a step back, higher rates, lower markets really should, in theory, bolster your relative financial position versus many of your private IBD peers that aren't self-clearing. And just wanted to get a sense as to whether this is an opportune time given the strength of your earnings profile, your improving relative position to maybe get a little bit more aggressive on the M&A front.

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Yes. Steven, look, I think our framework hasn't changed. We first focus on organic growth and looking at opportunities to deploy that capital even when at a place of strength in order to enhance our ability to differentiate and grow organically. And so in a down market, we see those opportunities around recruiting, as an example, where other firms may be struggling to invest in capabilities where they have less stable platforms. And you have the opportunity around a flight to quality, as an example. And we've seen those opportunities occur. The beginning of the pandemic was a good example of that. And so obviously, we stand ready and positioned for those opportunities.

I do think -- and then you look at M&A as a complement to that organic growth. We're constantly looking across the landscape at smaller broker-dealers and RIAs that may be an opportunity and an interesting perspective to support our overall growth agenda. And so those are interesting opportunities that we continue to look at and explore. You do tend to see some of those emerge more readily in a more challenging market.

And then I think finally, as we look across the broader landscape of the marketplace, challenging markets bring about probably accelerated consolidation. And we certainly -- if we feel well positioned and if we can follow our sort of formula, if you will, for how we think about the relevance of M&A, it's got to make strategic sense, it's got to be financially prudent, and we got to be -- make sure that we can operate and execute on it, then we'll be rather opportunistic there, too.

So I think that's sort of the order of which we would explore deploying capital to drive growth, organic, smaller tuck-in acquisitions, capability acquisitions and then finally, a larger -- more transformation. I hope that helps.

Operator

Our next question or comment comes from the line of Michael Cyprys Morgan Stanley.

Michael J. Cyprys - *Morgan Stanley, Research Division - Executive Director and Senior Research Analyst*

I wanted to ask about recruiting and just curious how this more volatile equity market backdrop with rising rates and a less certain macro picture, I guess more broadly, is impacting recruiting trends. Maybe you could share a little bit of color around the pipeline. And it looks like you've been adding about 300 advisers or so per quarter outside of M&A and the mandate wins. So just curious, your perspective on sort of the forward look around sustainability of that sort of pace of adding about 300 or so per quarter.

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Yes. So I might start with just a quick sort of step to talk on where we are, and then we'll talk about a little bit about it as we think about it going forward. So as a reminder, over the past year, we've recruited $76 billion in assets. And if you click down on Q1, that included $10 billion in Q1, which is actually our largest first quarter we've ever had ex. large financial institutions being a part of that. And so that certainly, I think, reinforces the continued success and opportunity, even in a marketplace that's under changing conditions, if you will.

And then I think if you look at -- we closed the quarter strong with almost 50% of that recruiting happening in March. So you got solid momentum as you kind of move away from some of the original episodic sort of geopolitical event that caused the volatility to start. And then I think as we -- it gives us a good baseline, if you will, to look forward. And then you've got recruiting opportunities in the financial institution space that we talked about earlier in CUNA and People's United to add to that as well as this growing diversity of our recruiting across our new affiliation models. Our Strategic Wealth, Linsco and RIA new models all contributed collectively $3 billion in the first quarter, which is a high for those new models.

And so we believe that those sort of dynamics and optionality and flexibility within the model and our ability to continue to invest and enhance the appeal of it sets up for a good solid opportunity, if you will, as we move forward through 2022. The pipelines continue to grow in each one of those affiliation models. So we're encouraged by the opportunity as we go forward.

And look, even in a down market, if we get some extended down equity market, that typically works as a tailwind to recruiting as once you get sort of past that sort of initial stage of that more challenging market, and advisers have kind of acclimated to that, they'll begin to pick up and use that time as an opportunity to look around and see how they strengthen their business strategically. So if we do end up in some extended down market, those can be a tailwind for recruiting. So that's how we see -- that's how we're looking at it across the balance of the year. I hope that helps.

Michael J. Cyprys - *Morgan Stanley, Research Division - Executive Director and Senior Research Analyst*

Great. So Maybe just as a follow-up question, you were mentioning some of the new affiliation models. Maybe you could just talk a little bit about the new employee model, just update us on how that's progressing in terms of bringing on new advisers and assets? And to what extent could an acquisition make sense in that part of your business to be helpful in terms of accelerating your scale and presence in the marketplace there?

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Yes. It's a good question. And look, that model is -- it really builds a really interesting and differentiated space in the spectrum of different models that exist in the marketplace. And just the foundation of its value sort of leads to a hypothesis that, that has good, strong opportunity in front of it. We certainly have had to establish ourselves with a credible solution in the marketplace, and winning begets more winning. And I think we see momentum building as we're doing that now in a variety of different geographical areas across the country and are really encouraged by how we think that model is positioned in the marketplace, its appeal, and now as we build our market share, it gives us even further kind of right to win credibility there. So very encouraging trend.

And you're right. I think this is one of those places that you might use an acquisition strategically if you just wanted to accelerate or add momentum to this particular model. If you remember, it's kind of how we started it with an acquisition of Allen and Co, which really gave us the initial foundation of learning and insight to try to build this model as appealing as we could make it and as differentiated as we could. So I think your hypothesis around could we complement it with M&A is certainly a logical place we would explore.

Operator

Our next question or comment comes from the line of Gerry O'Hara from Jefferies.

Gerald Edward O'Hara - *Jefferies LLC, Research Division - Equity Analyst*

Just, I guess, staying on theme a little bit. But the financial institutions, it seems as though there's been a cadence of perhaps 1 or 2 per year. Is there any sort of capacity constraint with respect to how many types of deals you can realistically expect to achieve in kind of a 12- to 18-month period, either from a staffing or just operational aspect of it all?

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Yes. I think when we originally started with these larger financial institution deals, admittedly, we had some things to learn in terms of both how you transition them into LPL and then how you support and help them acclimate, I'll call it, in the first 4 to 6 months, with the -- which is a change management effort. And I think we had lots of room for improvement as we learned around our first rounds. And we used that data and those insights then to turn and create new solutions, new digital capabilities, new technology solutions to streamline things, better understanding about how to deploy human capital in order to support them. And I think, presumably, not only will that help you get better at doing them in the second round, it also begins to help you drive efficiency and scalability into the overall effort.

And so part of that is onboarding them and how do we think about continuing to automate that to drive scalability into that. So I would tell you, we're learning into that, and we'll get better and better at it. And we'll automate it more and more. But I think it is reasonable to say there would always be some cap. I think we've got to continue to innovate first into that, and we've got room for improvement there.

I think the second thing is also just learning how to operate at higher growth rates. And I don't mean just in the initial transition. I mean how you support a higher growth rate on an ongoing basis. And I think this is where we see investments in our core operating platform, think service, compliance and operations and how we're really exploring how do you digitize all of them to the extent that you can. Then the scalability of the model really becomes interested not only in being able to facilitate those much higher growth rates on a sustainable basis, but also in the efficiency gains that you pull through it.

So I think when we talk about these digital end-to-end investments in our core clearing function, those are great examples of where we see helping ourselves sustain higher growth rates over a longer period of time. I hope that helps. But that's a couple of areas where I think -- we think about how we improve and invest to position ourselves for the long term for both higher growth rates and being able to bring in more and more of these volumes.

Operator

Our next question or comment comes from the line of Kyle Voigt from KBW.

Kyle Kenneth Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Maybe a question on promotional expenses. If we exclude transition assistance, I guess, the 2Q guide would really not -- would really imply not much change in that line versus the first and fourth quarter. Just wondering if you can quantify how much of the 2Q guide is attributable to those onetime onboarding-type costs that you cited. And really, what I'm getting at is whether this kind of $45 million range for that promo expense, excluding TA, is a good new kind of run rate to think about moving forward. Because when I think -- when we look back historically, that promo ex-TA was running around $25 million to $30 million pre-pandemic. So just getting a little bit more color there would be helpful.

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Definitely. I mean, when you look at Q2, there are a couple of things to highlight from a trend standpoint. And I think the first is really conference spend. So as a reminder, this year, we're returning back to a more, call it, typical conference schedule for us, which means the majority of those expenses will show up in Q1 and Q3. So we do expect lower conference expense in Q2. But I think the offset, which I think you probed on in your question, is really CUNA joining in the quarter, right, and the onboarding expenses associated with a large financial institution, in addition to the TA. But those actual onboarding expenses show up in promotional, and they really peak in the quarter in which that institution joined. And then reminder, CUNA is the largest financial institution that we'll have had.

So you do have the typical TA growing, not in rate, but I think in overall dollar amounts as our organic growth continues to grow or continues to increase. But I think probably, the main thing I'd highlight is it's the onboarding expenses, which are nonrecurring for that particular institution, right? If we continue to have more and more institutions, we'll have more onboarding expenses. But they are, by their nature, sort of nonrecurring. And if you -- we didn't include it this quarter. If you go -- if you look at what we put together last quarter, just looking at 2021 with M&T and BMO, those were about $15 million of those expenses for the year. And now when you look at this year, we have CUNA, which is kind of the size of those 2 institutions together, plus People's, which is another, call it, $5 billion, $6 billion. So we've got even more coming this year, and I think that might be the key to -- from a modeling standpoint on your side.

Kyle Kenneth Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

It's very helpful. And then another question on expenses. You're kind of guiding towards core G&A growth in that high single-digit range this year. I guess in an even more favorable interest rate and revenue backdrop, would there be any reason why that growth rate would vary significantly from the current kind of guidance range of high single digits? And also, maybe if you could just discuss how you balance the tailwinds of an even more favorable macro environment between letting that kind of fall to the bottom line versus the opportunity to invest back more into the business.

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. Definitely. And I think when you -- we definitely can address that. I think that when you think about rates going up, I think about early in the cycle, I would expect us to let that benefit fall to the bottom line and fully improve op margin. And when I say early in the cycle, think the first 100 basis points or so, right? And once we get beyond that, I think we would consider making additional investments really with a focus on driving growth, but also while still resulting in an overall improvement in op margin, right? So I think that's the balance we would have when we get deeper into the cycle.

And I think the key for us is really our capital allocation framework to drive the decisions, and organic growth is first and foremost on that list. And the things that we would consider are new capabilities for advisers as an example, further enhancements to the service experience, investments in expanding the services portfolio that Dan talked about earlier that can -- all these things, just as a few examples, that can really drive growth.

And then, of course, beyond investing in the business, we would, of course, look at other uses for that capital outside the expense side, meaning M&A and returning capital to shareholders. So that's the framework we would use. And I think we're -- overall, I think we're positioned to really remain flexible and make those decisions at the relevant time, meaning when those increases occur.

Operator

Our next question or comment comes from the line of Michael Young from Truist Securities.

Michael Masters Young - *Truist Securities, Inc., Research Division - VP & Analyst*

I wanted to ask maybe more of a high-level question just on profitability, kind of free cash. So looking at Slide 14 and the gross profit ROA prior to client cash, it's sort of been coming down just a little bit here over the past couple of years. And just wanted to get kind of a higher-level thought on what could kind of turn that back the other way. Is it really just kind of lapping some of these onboarding and higher growth-related expenses? Or are there other structural things that you expect that could be a benefit going forward?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. And I think the key on those trends is maybe just to highlight the changing -- the nature of the revenues that are in there. And I think when you just think about gross profit growth overall, right, before we get to ROAs, right? The things that are driving that up are going quite well, right? NNA overall has been increasing year after year. We're recruiting larger advisers. The financial institutions channel is expanding and growing. We've got positive mix shifts, whether it be brokerage to advisory and then within advisory into our centrally managed platforms. And then some nice growth, I'm sure you saw, on the service and fee revenue. So those are all things that are driving nice gross profit growth.

When you look at it from an ROA standpoint, the challenge is they're not all asset-driven revenues, right? So it can get a little noisier. The adviser-driven fees, the services fees, transaction revenues, as an example, those don't move along with assets. So you get a little bit of noise there.

Another one that I think is really important is the large financial institutions. M&T, BMO, CUNA and People's, that gross profit ROA is dilutive to our overall averages because those institutions are much larger. Their gross profit ROAs for us are much lower, but the transition assistance and the expenses to support them are also lower. So they're margin-accretive clients for us. When you look at it from the lens of purely gross profit ROA, like I think -- like you walked through very well just now, it's going to look like there's a decline when really, the economics and the op margins are actually improving.

So I think that's the most relevant thing from my standpoint when you see those trends. We're continuing to drive growth. We're just getting more and more diversified both in the types of revenues that we have and the size of clients that we have that it looks like there's some compression there when it's really quite a positive story.

Michael Masters Young - *Truist Securities, Inc., Research Division - VP & Analyst*

That's really helpful color. And maybe as a follow-up, just as you've kind of moved down the path and done more of these sort of different recruiting models, are there any lessons learned sort of in terms of the structuring of the deals or the economics of the deals? Or are you getting better kind of incremental economics now than maybe earlier on with some of the initiatives? It would be helpful to hear anything about that.

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. I think -- sorry. So I think when you think about the overall economics of the different models, and maybe building a little bit on what I was just talking about in the financial institutions, right, there's different levels of services provided. So there's different -- not only different levels of revenues, but also different levels of expenses to support it and then the transition assistance to bring them on board. So I think about the overall returns for us is relatively similar as a baseline. Then the more service and support we provide, the more those returns can go up. But I think the key is about the service and capabilities that we provide in those different models.

Operator

We have time for one final call. That call is from Steven Chubak from Wolfe Research.

Steven Joseph Chubak - *Wolfe Research, LLC - Director of Equity Research*

Well, now I get to ask the question I really wanted to ask, not on behalf of investors but myself, which is on the buyback. And Matt, heard you loud and clear about the second half and potentially some room for increasing or accelerating the buyback. I know you guys have a very transparent capital return algorithm. But just given the fact that you're running with excess liquidity today, you're already at that lower leverage bound, I was hoping you could speak to what level of buyback we could be contemplating in a higher rate environment relative to the $125 million a quarter you had done previously. And given your stronger earnings power, is it reasonable to expect that it could even be above and beyond that run rate while still support -- while still having ample free cash flow generation to support organic growth and the dividend?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO*

Yes. So I think -- so it, of course, all depends on the opportunities we have to allocate capital, Steve, and how much eventually goes to buybacks. But I think maybe a couple of things, right? Just keep in mind, at least for the near term in Q2, with CUNA joining and the transition assistance getting paid in that quarter, that's going to be a meaningful use of cash in the near term to combine with the buybacks that we expect to be at a similar range for Q2.

But to your point on the second half of the year, I think to state the obvious, right, if rates go up in line with what the market expects, we're going to have additional capital to deploy. And I think to your point on the leverage range and being at the low end of the range, right, our objective would be to deploy that capital and to manage within that range. And I think where that capital goes is back to our framework, right? Organic growth, first and foremost; M&A, second; and returning capital to shareholders, third. So it really just depends on the opportunities that are in front of us at that time.

But I think if, in the scenario where the opportunities are primarily in share repurchases and the cash that we generate is going up, I would expect those share repurchases to go up. Just all a matter of what the opportunities are, and we'll make our decisions at that time.

Operator

I show no additional questions in the queue at this time. I'd like to turn the conference back over to management for any closing remarks.

Dan Hogan Arnold - *LPL Financial Holdings Inc. - President, CEO & Director*

Thanks, everyone, for taking the time to join us this afternoon. We really appreciate it. We look forward to speaking with you again next quarter. Take care.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone, have a wonderful day.