REFINITIV STREETEVENTS

EDITED TRANSCRIPT

LPLA.OQ - Q4 2023 LPL Financial Holdings Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 01, 2024 / 10:00PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

Matthew Jon Audette *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

CONFERENCE CALL PARTICIPANTS

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

Benjamin Elliot Budish *Barclays Bank PLC, Research Division - Research Analyst*

Daniel Thomas Fannon *Jefferies LLC, Research Division - Senior Equity Research Analyst*

Devin Patrick Ryan *JMP Securities LLC, Research Division - MD, Director of Financial Technology Research & Equity Research Analyst*

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

Michael Cho *JPMorgan Chase & Co, Research Division - Research Analyst*

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

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

PRESENTATION

Operator

Good afternoon, and thank you for joining the Fourth Quarter 2023 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 and Head of Business Operations, Matt Audette. Dan and Matt will offer introductory remarks, and then the call will be open for questions.

The company would appreciate if analysts will limit themselves to one question and one follow-up each. The company has posted its earnings press release and supplementary information 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 now turn the call over to Mr. Arnold.

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

Thank you, Amy, and thanks, everyone, for joining our call today. Over the past quarter and throughout 2023, our advisors continue to provide their clients with personalized financial guidance on the journey to help them achieve their life goals and dreams. As we enter the new year, we thank our advisors for their continued commitment and dedication, while we remain focused on our mission of taking care of them so they can take care of their clients.

During the fourth quarter, we continued to see the appeal of our model grow due to the combination of our robust and feature-rich platform, the stability and scale of our industry-leading model and our capacity and commitment to invest back into the platform. As a result, we continue to make solid progress in helping advisors and enterprises solve challenges and capitalize on opportunities better than anyone else, and thereby serve as the most appealing player in the industry.

With respect to our performance, we delivered another quarter of solid results while also continuing to make progress on the execution of our strategic plan. I'll review both of these areas, starting with our fourth quarter business results.

In the quarter, total assets increased to $1.4 trillion, as continued solid organic growth was complemented by higher equity markets. Regarding organic growth, fourth quarter organic net new assets were $25 billion, representing 8% annualized growth. This contributed to organic net new assets for the year of $100 billion, representing approximately a 9% growth rate.

In the fourth quarter, recruited assets were $17 billion bringing our total for the full year to $80 billion. Prior to large enterprises, recruited assets for the full year were $67 billion, an increase of nearly 50% year-over-year and a new annual record. This outcome was driven by the ongoing enhancements to our model as well as our expanded addressable markets.

Looking at same-store sales, our advisors remain focused on taking care of their clients and delivering a differentiated experience. As a result, our advisors are both winning new clients and expanding wallet share with existing clients, a combination that drove solid same-store sales in Q4.

At the same time, we continue to enhance the advisor experience through the delivery of new capabilities and technology and the evolution of our service and operations functions. As a result, asset retention for the full year was approximately 99%. Our fourth quarter business results led to solid financial outcomes with adjusted EPS of $3.51, which brought our full-year total to $15.72, an increase of 36% year-over-year.

Let's now turn to the progress we made on our strategic plan. Now as a reminder, our long-term vision is to become the leader across the advisor-centered marketplace. To do that, our strategy is to invest back into the platform to provide unprecedented flexibility in how advisors can affiliate with us and to deliver capabilities and services to help maximize advisors' success throughout the lifecycle of their businesses.

Doing this well gives us a sustainable path to industry leadership across the advisor experience, organic growth and market share.

Now to execute on our strategy, we organize our work into two strategic categories: Horizontal expansion, where we look to expand the ways that advisors and enterprises can affiliate with us, such that we compete for all 300,000 advisors in the marketplace; and vertical integration where we focus on delivering capabilities, technology and services that help our advisors differentiate and win in the marketplace and be great operators of the business.

Now with that as context, let's start with our efforts around horizontal expansion. Over the fourth quarter, we saw strong recruiting in our traditional independent market, adding approximately $14 billion in assets. As a result of the ongoing appeal of our model and the evolution of our go-to-market approach, we maintained our industry-leading win rates while also expanding the breadth and depth of our pipeline.

With respect to our new affiliation models, Strategic Wealth, Employee and our enhanced RIA offering, we delivered our strongest year-to-date, recruiting roughly $15 billion in assets, nearly double the total of the prior year. As we look ahead, we expect that the increasing awareness of these models in the marketplace and our ongoing enhancements to their capabilities will help drive a sustained increase in their growth.

Next, the traditional bank and credit union space continues to be a consistent contributor to organic growth, as we added approximately $1 billion of recruited assets in Q4. In addition, large enterprises remained a meaningful source of recruiting in 2023 with the addition of Bank of the West and Commerce Bank. For 2024, we continue to prepare to onboard the retail wealth management business of Prudential Financial.

Now, as a part of that process, our team has been on the road, meeting with Prudential advisors to provide them a preliminary orientation to our platform, and the early feedback has been positive. Looking ahead, we are confident that the appeal of our value proposition for enterprises, matched with our track record of successful execution, positions us well to help solve the needs of a broad spectrum of institutions.

Now within our vertical integration efforts, we are focused on investing back into the model in order to deliver a comprehensive platform of capabilities, services and technology that help our advisors differentiate and win in the marketplace and run thriving businesses.

As part of this effort, over the past quarter, we continued to make progress on our aspiration of delivering an industry-leading experience (corrected by company after the call). This work includes continuing to make our service model more flexible and efficient through a multichannel approach. The purposes of which is to offer a broad spectrum of service options, including human-centric support, digital capabilities and artificial intelligence, such that we can provide advisors the information they need in the channel that works best for them.

In that spirit, over the last year, we have continued to expand our digital capabilities, including our digital hubs, which provides advisors always-on support in a centralized and intuitive format. Our investments in this area enabled us to expand from 2 digital hubs to 11 over the last year, with the newest being our Tax Hub, which helps advisors process tax business in a streamlined and highly efficient way.

While we are still in the early innings of the adoption of this capability set, the percentage of advisor interactions that go through digital channels has roughly doubled over the last year, from 10% to 20%. And as we continue to refine these capabilities, we believe that digital solutions can ultimately serve as much as 50% of our service interactions.

Now as an additional part of our vertical integration strategy, we continue to expand and enhance our services portfolio and are encouraged by the evolving appeal of our value proposition and the seasoning of our capabilities. And as a result of solid demand, the number of advisors utilizing our portfolio of 14 available services continues to increase, and we ended the year with nearly 3,900 active users, up 27% from a year ago.

Looking ahead, we remain focused on addressing the needs of a broader set of advisors and are innovating on new services that will directionally double the size of our services portfolio over the next 2 years. Now, one of the latest innovations in our services portfolio was inspired by our broader efforts to tackle the advisor transition process, which has historically been an industry-wide pain point, given the friction and complexity of changing firms.

That said, rather than seeing the transition process as a headwind, we view it as an important strategic opportunity, as the easier we can make it for advisors to change firms, the more it will drive up advisor movement in the industry, where we are well positioned to benefit as the market leader in recruiting.

To help solve for that opportunity, we have developed several new transition capabilities and solutions, including a live testing environment for advisors to familiarize themselves with our platform before transitioning, fully-automated stages of the onboarding process and the suite of transition services that includes Short-Term Admin, Branding and Bookkeeping Support, which help simplify the transition and onboarding journey, and ultimately accelerate advisors readiness and growth.

Early feedback on these transition services has been positive, and they are proving to be a catalyst for additional subscriptions, as 40% of advisors who use these solutions end up subscribing to one or more of our other ongoing services.

And as we move forward, we will continue to challenge ourselves to solve for advisors' needs at every stage of their practice in order to help them build the perfect business for themselves and ultimately maximize their success.

In summary, in the fourth quarter and throughout the year, we continued to invest in the value proposition for advisors and their clients while driving growth and increasing our market leadership. As we look ahead, we remain focused on executing on our strategy to help our advisors 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 & Head of Business Operations*

All right. Thank you, Dan, and I'm glad to speak with everyone on today's call. Before I review our fourth quarter results, I would like to highlight our progress during 2023.

Against an evolving market backdrop, we maintained our focus on supporting our advisors and their clients while executing on our strategic priorities. We continued to grow assets organically in both our traditional and new markets, successfully onboarded new enterprise clients and continue to make progress with our Liquidity & Succession solution.

So as we enter 2024, we remain excited about the opportunities we have to serve and support our more than 22,000 advisors, while continuing to invest in our industry-leading value proposition and drive organic growth.

Now let's turn to our fourth quarter business results. Total advisory and brokerage assets were $1.4 trillion, up 9% from Q3, as continued organic growth was complemented by higher equity markets. Total organic net new assets were $25 billion or approximately an 8% annualized growth rate.

Our Q4 recruited assets were $17 billion, which brought our total for the year to $80 billion. Looking ahead to Q1, our momentum continues, and we are on pace to deliver another strong quarter of recruiting.

As for our Q4 financial results, the combination of organic growth and expense discipline led to adjusted EPS of $3.51. Gross profit was $1.7 billion, down $3 million sequentially. Our payout rate was 87.6%, up 30 basis points from Q3 due to the seasonal build in the production bonus. Looking ahead to Q1, we anticipate our payout rate will decline to approximately 86.5% as the production bonus resets at the beginning of each year.

With respect to client cash revenue, it was $374 million, down $4 million from Q3, as average client cash balances declined slightly during the quarter. Client cash balances ended the quarter at $48 billion, up $1 billion sequentially, marking the first quarterly increase since the second quarter of 2022.

Within our ICA portfolio, the mix of fixed rate balances ended the quarter at roughly 60%, within our target range of 50% to 75%. As a reminder, during Q4, there were roughly $2.5 billion of fixed rate contracts that matured. We placed $2 billion of these maturing balances into new 5-year contracts, yielding approximately 415 basis points, which is roughly 85 basis points higher than their prior yield. Looking more closely at our ICA yield, it was 317 basis points in Q4, down 1 basis point from Q3. As for Q1, based on where client cash balances and interest rates are today, as well as the yields on our new fixed rate contracts, we expect our ICA yield to increase by approximately 5 basis points.

As for service and fee revenue, it was $131 million in Q4, down $5 million from Q3. This decline was primarily driven by lower conference revenue, following our largest advisor conference of the year in Q3, as well as seasonally lower IRA fees. Looking ahead to Q1, we expect service and fee revenue to decrease by approximately $5 million sequentially on lower conference revenue.

Moving on to Q4 transaction revenue. It was $54 million, up $4 million sequentially due to increased trading volume. As we look ahead to Q1, based on what we have seen to date, we would expect transaction revenue to increase by a couple million sequentially.

Now let's turn to expenses starting with core G&A. It was $364 million in Q4, bringing our full-year core G&A to $1.369 billion. This was within our outlook range and for the full year, represents approximately 15% growth. As a reminder, this included an opportunistic 5% of incremental spend, focused on accelerating our capabilities, as we took advantage of the favorable macro environment.

Now, as we look ahead to 2024, we plan to return to more normalized levels of spend, concentrating on investments that enable organic growth and drive operating leverage in our business. In addition, our ongoing investments to scale our business are driving greater efficiencies.

Pulling this together, we expect our 2024 core G&A growth rate to be roughly half the rate we saw in 2023. More specifically, we intend to grow 2024 core G&A in a range of 6.25% to 8.75%. As for Q1, we expect core G&A to be in the range of $360 million to $370 million.

Note that this core G&A spend is prior to expenses associated with Prudential. As we move closer to onboarding them towards the end of this year, we'll provide an update on 2024 core G&A. I would just emphasize that we expect only a small amount of spend in 2024, as the majority of these costs will be incurred in 2025.

Moving on to Q4 promotional expense. It was $138 million, down $2 million sequentially, as lower conference spend was partially offset by higher Prudential-related onboarding and integration costs. Looking ahead to Q1, we expect promotional expense to be roughly flat, as we have one of our largest advisor conferences during the quarter, which will be offset by seasonal declines in marketing spend.

As for regulatory expense, it was $9 million in Q4. Looking forward, given the increased size and scale of our business, we would expect regulatory expense to be roughly $10 million per quarter.

Looking at share-based compensation expense, it was $16 million in Q4, flat compared to Q3. As we look ahead, we anticipate this expense will increase by approximately $6 million sequentially, as Q1 tends to be our highest quarter of the year, given the timing of our annual stock awards.

Regarding capital management, our balance sheet remained strong in Q4 with corporate cash of $184 million. I would note that during the quarter, we completed our first investment-grade debt offer, issuing $750 million of senior notes. With that, our leverage ratio increased to 1.6x and is within our target leverage range of 1.5 to 2.5x.

Turning to how we deploy that capital, 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 Q4, we deployed capital across our entire framework, as we continue to invest to drive and support organic growth, allocated capital to M&A within our Liquidity & Succession solution and returned capital to our shareholders, repurchasing $225 million of shares. As we look ahead to Q1, we plan to repurchase $200 million of our shares, keeping us on track to execute our $2 billion authorization over 2 years.

Turning now to interest expense, it was $54 million in Q4, up $6 million sequentially. Looking ahead to Q1, given current debt balances and interest rates, we expect interest expense to increase by approximately $7 million from Q4.

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 advisors, grow our business and create long-term shareholder value. With that, operator, please open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And our first question comes from Steven Chubak with Wolfe Research.

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

Maybe just to start off with a question on core G&A and organic growth. The double-digit organic growth you've achieved these past 3 years, it's really been bolstered, at least in part, by significant investments in the platform, and core G&A has also grown at a double-digit clip as well.

So the updated core G&A guide for '24 certainly surprised positively. It does imply a significant moderation, as you noted, Matt, in expense growth. But should we expect a slower G&A growth to drive a commensurate slowdown in organic? Or do you feel the NNA momentum can be sustained even with the moderation in G&A spend?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes, Steven, I'll give you some color here, but the answer is going to be the latter. I think the investments are moderated and our confidence and conviction around continuing to drive organic growth is just the same.

Now, the details below that, just building a little bit on what I shared in the prepared remarks, the cost strategy or investment strategy remains driving -- investments prioritizing to drive organic growth, as well as driving productivity and efficiency, and I think what's probably most relevant in this conversation is also adapting as the environment evolves.

So if you look at, to your point, on 2023 and growing 15%, you kind of break that into -- that 15% into 3 equal categories of about 5% each. The first was really about serving and supporting the core business growth.

The second was about continuing to make investments to really improve our value prop through and establish ourselves in the new models and addressable market to scale our services, things of that nature. And that third category, that third 5% was really just being opportunistic about the market really accelerating investments. And I think when you look at the guidance for 2024, our plans for 2024, it's really pulling back in that third category.

So we're continuing to make the investment in growth. We're continuing to make the investments to improve our value proposition and capabilities. In just those two things, and this may get really to the core of your question, that would typically lead to core G&A growth in the 8% to 10% range.

But then you put on top of that, the investments we're making for productivity and efficiency, which do create capacity to invest each and every year, are getting even better. And it's that final point that brings us down to the 6.25% to 8.75%. So hopefully, the color helped there, but I think the headline point is our conviction on continuing to deliver organic growth in the high single digits remains.

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

That's great to hear. And for my follow-up, Matt, I was hoping you could just provide an update on January trends. I know it's a seasonally weaker month, typically, for both NNA and cash. And just with cash trends also stabilizing over the last 6 months, just speak to your confidence level that some of these sorting headwinds, which have gotten a lot of airplay, are largely in the rear view.

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes. I think I'll start on cash. I mean the headline is we really saw a cash start to stabilize back in July. So really, if you look at the second half of the year, even by the month, we ended the year at a pretty similar level of where we ended July. So I think what we're seeing in January is really a continuation of that stability.

So just a reminder, the seasonal factor that does hit in January is advisory fees, typically hit primarily in the first month of the quarter. So we -- so those do reduce cash balances. It's around $1.2 billion. Outside of that though, we've continued to see stability, so the amount of cash balance moving from customer activity was actually a slight increase in January.

So you put that together, and cash balances overall for the month are down $1.2 billion, but it's primarily driven by those fees, and the activity is actually a slight increase. So I think headline is continuing to see stability on the cash sweep side.

On the organic growth side, and maybe just -- I'll give a little bit of context and perspective on the overall quarter as well as the month of January, to your point on your first question, when you look at the last 3, 4 years of really driving and delivering that high single-digit organic growth, given the nature of Q1, the first quarter is usually a little bit lower.

So in those years, it was typically in the 6% to 7% zone. So if we look at what we're seeing for Q1 '24, is really delivering something in a similar place, that's 6% to 7%.

The only thing I would highlight and the reason for this color is we would expect January to actually be a little bit lower than normal, in the 1% to 2% zone, and then February and March actually to be higher than typical, really at those high single digits, really coming together at a 6% to 7% for the quarter.

And really, the reason for that is that the seasonal factors that we just talked about on the cash sweep side, meaning advisory fees hitting in the first month of the quarter as well as you have on the NNA front that normal slowdown in the first half of January because of the FINRA closing in the second half of December as well as advisors taking time off, you have those normal factors that come through in January.

Two things I would highlight, though, for this January. First is recruiting. Our recruiting continues to be strong. You may recall, Q1 of last year, we set a new record in recruiting prior to large enterprises at around $13 billion. We're on track to exceed that in the first quarter this year. So continued strength there. Just the timing is a little shifted more towards February and March, so you got a little bit of weakness in January.

And then on the attrition side, a little bit of the opposite, and that attrition is going to be a little bit heavier in January versus February and March as we had two practices that were acquired to part during the month. And that's normal. It happens from time to time. We just happen to have two in a single month in January. Outside of that, our retention remains consistently high with the levels we've seen.

So lots of color there, but I would headline it in, we're looking at Q1 and continuing in that 6% to 7% zone. And you're just going to have a little bit of a different shape to the quarter with January in that 1% to 2% zone.

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

Lots to unpack there, but thanks so much for the detail, Matt.

Operator

And our next question comes from Alexander Blostein with Goldman Sachs.

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

Good afternoon, everyone. Thanks for the question as well. Dan, I was hoping we could talk a little bit about the large enterprise channel for you guys. It's been an area of significant success over the last couple of years.

So maybe talk a little bit about deal activity expectations for 2024. And in particular, curious about the level of engagement you guys are seeing from insurance company clients on the back of the Pru deal.

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

Yes. Thanks, Alex. So look, with respect to our large enterprise channel, we opened this market up back in 2020 with a novel outsourcing solution. And initially, we targeted larger banks and have seen some success up to this point, capturing about $85 billion of assets to our platform. If you look at the total market for banks and outsourcing of wealth management -- for wealth management, it's roughly in and around $1 trillion.

We believe with our experience, reputation and capability set, it's a compelling solution that helps continue to strengthen that pipeline and offer up an interesting durable growth opportunity as we move forward.

That said, at the same time, we took our solution that was targeted to banks, and we made some additional investments and capabilities and personalized options, which enabled us to extend the appeal of that model to, as you said, the insurance companies or product manufacturers that operate wealth management solutions. And now that market represents an additional $1.5 trillion of opportunity.

And with the Prudential announcement, it was a catalyst for additional inquiries, exploring the question, so why aren't they outsourcing? and we continue to progress in these discussions and explore others. They're still in the early stages, but we do believe this part of the pipeline will continue to evolve as well.

So if I summarize it, as we move forward, we believe our market leadership capability set and a real deep IP for this enterprise channel creates a really unique growth opportunity for us. We're excited about it.

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

Great. And a quick follow-up for you, Matt. So nice to see you guys moving forward with reinvestments of the fixed ICA maturities, the $2 billion that you mentioned. How is demand holding up in the ICA channel for additional fixed maturities as we kind of think about the $6.5 billion tranche that's coming out this year?

And is there a way to sort of accelerate some of that reinvestment? I know you provided a schedule, kind of how that shakes out over the course of the year. But any opportunity to move a little faster in case rates to start moving lower to lock in wider spreads?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes, Alex, I think on the demand, the demand is strong. Like if you look at the $2 billion that we did place into new contracts towards the end of the quarter, we're able to place them in 5-year contracts. So that's kind of the longest duration that the market typically offers, which is where we prefer to be right now. And we're able to place them at a 30 basis point spread above, where the curve is.

And I think we've talked about, for a long time in this marketplace, there really were no spreads to the curve. And sometimes, they're even discounts. So I think that's probably the most empirical data that the demand is out there, is strong. And you see similar demand on the floating rate side as well.

On the second part of your question, the opportunities to accelerate really aren't there. It's kind of the nature of a fixed rate contract, right, for the same reason on both sides of the equation, from a bank liquidity standpoint, where they get it on their side. It's not a very common thing. So I wouldn't expect any opportunities to accelerate it.

But as you noted, we have -- when you look at the year, we've got $6.5 billion coming up. And if you look at the marketplace right now, we'd be able to place them in even higher rates. And if that 5-year point is available, we'll be excited to do it there as well. So market is good, but acceleration opportunity is probably not there.

Operator

One moment for our next question. And our next question comes from Kyle Voigt with KBW.

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

Maybe just a question on the Prudential expenses. First, I just wanted to confirm that the $125 million of the integration and onboarding expenses in the promotional line are onetime and still expected to entirely roll off by the start of 2025.

And then can you just help frame the size of the incremental G&A growth we should think about in '25, either on a percentage basis year-on-year or framing relative to the size of the Pru expenses in promo that will be rolling off in '24?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes. Sure, Kyle. I mean I think on the $125 million, yes, they are definitely onetime and specific to bringing Prudential onboard. I think the majority of them will be in 2024. So if you look at what we spent so far in '23, it's in the $25 million, $26 million range. Of that remaining $100 million, that will primarily be in '24. But just depending on the timing of when they come onboard, some of that could flow over into 2025.

Now the total amount wouldn't change. It's just a -- it would still be $125 million. It could -- some of it could just go into 2025, but the majority would be in 2024.

On the core G&A front, I think the headline I would give you and kind of emphasized in the prepared remarks that the amount we expect in 2024 is relatively small, and it's all about the timing of when they come onboard.

I think to your question of how to dimension it, I think I'd just go back to the estimated EBITDA when it's fully ramped, which is around $60 million. And maybe just look at overall margins in our business around 50%, that should give you a sense of the overall expenses. That would go along with it. So I think if you did something like that, you'd be directionally correct. I'd just emphasize that it's -- from a cost standpoint, it's likely to be primarily in 2025, just given the timing of when they're going to come onboard. It's towards the end of ['24].

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

Understood. And then just on the follow-up, if you just ask on the M&A environment, we're seeing a macro backdrop now that I expect to be more favorable for M&A in the sector. Markets are at all-time highs. We're starting to see some clarity on interest rates, at least relative to the past year or 2.

So just wondering if you could speak to the opportunities you're seeing in the market, whether bid-ask spread between sellers and buyers maybe narrowing? And the number of -- or types of deals that you're seeing come across your desk now versus maybe this time last year.

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

Let me take a stab at that one. It's Dan. And hopefully, I'll get all your questions inside of there. So I think, as you know, M&A remains a core part of our strategy as a complement to our organic growth opportunities. And to your question, we focus on three primary categories of opportunities: One is -- first, to grow in our market. So potential acquisitions might include both broker-dealers and RIAs.

Examples of that are our Boenning & Scattergood acquisition, Waddell & Reed acquisition and then Crown Capital, which we're closing early this year. So those are good examples of how we might look across the marketplace for those opportunities. And look, as the industry continues to consolidate, we would expect to be a participant in that consolidation.

The second type of transactions that we will look at is to add capabilities, and these are capabilities where we would ultimately evaluate, allocate -- and should we allocate capital to build, buy or partner. And to the extent this accelerates our desire to create that vertically integrated, feature-rich platform, then this is where we would look to an opportunity like that, as capability transactions would include AdvisoryWorld and Blaze.

And to remind you, Blaze is a trading platform that we're turning into what we think will be a really industry-leading trading and rebalancing tool that we're making available to our entire client base in -- early in the Spring. So excited about that type of transaction and what we can do with it.

The third type of category or example of a transaction would be deploying capital against this newest capability of Liquidity & Succession. Certainly gives us -- put our capital work in a way that both meets our disciplined return thresholds and then helps both internal and external advisors solve a really important question around this succession needs and requirements that we've talked a lot about over the next 10 years.

And again, I think in doing that, it positions us well to not only do that for internal advisors, but also to potentially create that solution for those that aren't part of our enterprise today.

So if you just summarize all of that, we consider M&A opportunities a core part of our strategy. But we will remain disciplined to make sure that the framework with which we assess them as they benefit strategically, financially, culturally and operationally. And we'll do it with good discipline around each of these. I hope that helps.

Operator

One moment for our next question. And our next question comes from Devin Ryan with JMP Securities.

Devin Patrick Ryan - *JMP Securities LLC, Research Division - MD, Director of Financial Technology Research & Equity Research Analyst*

Okay. Great. A question for Dan. I was interested by the comments you made about some of the new service innovations and really to encourage advisors to move -- and, I guess, move to LPL. And I guess I took that more as LPL looking to win more advisors in motion. But if I look at industry churn, it's been pretty anchored at 5% to 6% in recent history.

So I'm just curious, based on what you just talked about, whether it's some of the innovations in the services portfolio or just that you're seeing more broadly occurring in the industry that could really change that 5% to 6% rate, and it would seem like it would be a pretty big deal, if you can? So just love to get a sense of kind of what those innovations actually mean. And then can that rate move for either LPL reasons or industry reasons?

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

Yes, good question. So I think if we just sort of start with the first question around churn or that movement in the marketplace, and we continue to see advisor movement remain flat. Think about that in the range of 5%, 5.5% over the other part of the last couple of years, which is -- you know is below historical norms.

Now there has been some mix shift in that turnover and where it's coming from. In fact, in the last year, you've seen movement in the traditional independent market move up, where there's been a slowdown, as an example, from the wires.

That said, notwithstanding all of that, I think we, first and foremost, look at our overall win rate, what is moving across all of our different affiliation models as a way to continue to understand their absolute appeal well as their hopefully growing appeal as we invest more into the platform or the model.

And as we said earlier, despite this lower movement in advisors, if you look at the relative market share we're picking up in our win rates, you've seen those increase over the past 3 years with that investment back into the model.

And I think look, for the newer models, not only do we have higher opportunities to enhance the capability set there as they're on a -- just a fresher journey, if you will, in terms of our investment capabilities there, also their seasoning, the growing awareness and credibility they have in the marketplace can also be a catalyst for higher win rates there. So it's not just even the investment. It's that it's growing seasoning around our right to win, if you will, with those new models.

And then finally, to your point, I think one of the things that we look at is if we can't completely control the movement of advisors in the marketplace, what could we do to contribute to it in this notion or concept, making it easier to help an advisor move from one practice to another, given that being what we believe is one of the big hurdles for advisors moving.

Boy, if you could solve that or begin to break that down and imagine that in different ways and thus create a much different rubric, if you will, for the change management effort sort of associated to moving the A to B that, that could be a real catalyst to increase that movement in the industry.

And so that's the question I think we're trying to explore and that I alluded to in my remarks, and we're using our services portfolio and some of the ways that which we've learned how to add value to advisors in helping them operate their practices and realize that we tweak them a bit and offered them while someone is going through a conversion, that actually could be a catalyst to making it easier to go through that change in management.

And thus, it's successful at doing that more structurally. But then you could see the knock-on effect, if you will, of potentially accelerating the movement and with our ability to recruit and our positioning of our models in the marketplace, certainly, that's a strategic opportunity for us. So that's how we pulled that together. I hope that added some color.

Devin Patrick Ryan - *JMP Securities LLC, Research Division - MD, Director of Financial Technology Research & Equity Research Analyst*

Yes. Thanks, Dan. That's great color. And I guess my follow-up is just it's interrelated to that. So your terrific momentum in recruited assets in 2023 and really the new affiliation models are clearly resonating in the market. And I believe you said $15 billion from those new channels in 2023, so that would seem to imply -- I mean the legacy channels would be around $50 billion to get to the $67 billion total, if I'm correct there.

So on the new affiliation channels, the contribution continues to scale, as those mature. Should that look like something similar to, call it, the $50 billion from the legacy channels? Or -- I'm just trying to size because they're growing so quickly, kind of what they look like at maybe maturity or something that's more mature like?

Or maybe it's well above $50, but just want to get some thoughts on kind of where we're coming from to where we're going just because there has been such a tremendous growth there, especially when you split it out separately.

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

Yes. It's a great question. And I think as we think about those longer terms and what is that possibility, I think we start with the size of each of those markets. And that we've broken down in the employee base market is the largest one of all in that $11 trillion to $12 trillion range, our RIA in the second. And then the sort of SWS model that we have is a subset, if you will, typically those coming out of an employee-based model.

And so, if you think about the opportunities that associated with those, I think you would start with that broader market, and then you begin to then drill down on what's our right to win, what's our ability to win, what are the capabilities necessary to continue to grow our win rates inside those markets.

And then if you do that, it's reason to believe, given the size of those markets relative to the traditional independent, that even if we achieve half of the win rate or the success rate we do in our traditional independent channel that those begin to make sizable contributions that, as you were estimating, look more like the contribution on the independent side.

So what I'm not suggesting is we'll get there, what I am suggesting is that's an opportunity that is worthy of continuing to work into, invest into and challenge ourselves to achieve the type of win rates we have on the independent side in these large markets. I hope that helps.

Operator

One moment for our next question. And our next question comes from Dan Fannon with Jefferies.

Daniel Thomas Fannon - *Jefferies LLC, Research Division - Senior Equity Research Analyst*

This quarter saw the biggest kind of quarter-over-quarter increase in sales-based commissions, looks to be somewhat driven by annuities. So curious about your outlook for that. And in the context of what the DOL has proposed, how you think that might change behavior or not, going forward?

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

Yes. Let me take that one. Thanks for the question. We have seen some momentum, frankly, since rates have gone up, but you've seen the interesting growth in the utilization and probably predictable growth in the utilization of fixed annuities. And then when the equity markets move and have volatility in them, variable annuities can also be an interesting opportunity to deploy capital.

And so I think it's been a nice tailwind for annuities for the better part of the year -- last year plus. And you're exactly right, fourth quarter just reinforced that. I think as we go forward, the question around the DOL is a good one relative to brokerage and advisory.

And I think as we think about that, we go back to our playbook we used in '15 and '16 time frame, where -- as from a principal standpoint, we believe that maintaining choice for advisors' clients is in their best interest and our interest in making sure that we do the things necessary to preserve the choice for advisors between brokerage and advisory and our ability to ensure that we can help them adequately do that as the rules change relative to Reg BI.

And then again, if the DOL rule ultimately goes through and in changes that slightly -- making sure that we're prepared to help them pivot, where they can successfully continue to do that business, where it's in the best interest of the clients. And I think hard to argue with making sure that you provide people choice and then ultimately enable those advisors to serve them or offering a way when they need to for clients.

That said, I do believe that in many cases, annuities will continue to be used where they're needed, where they make sense as a rollover option or where they make sense in helping someone, as we talked about earlier. With downside protection, it's still participating in the upside for the equity markets, there's good places to use them.

I think that what we will see though is in other areas, you'll probably see a bigger shift to the utilization of advisory. It's just tougher to do brokerage business. There may be some places, small accounts, there may be other scenarios where given the two options, the advisor ultimately utilizes the advisory solution, which is still in the best interest of the client, but also just in the spirit of making sure the business can be better and efficient.

So we do believe that's a trend. Hence, the investments in our advisory platforms, vertical integration we have around our advisory offering, again, lines up well with structural change as well.

So put a capstone on it. We will make sure that we're positioned to enable brokerage to continue to be used. I do think that the DOL rule would create some headwind on the percentage of brokerage business that we see. But it won't be a complete change. You'll still see it utilized for some. Hope that helped.

Daniel Thomas Fannon - *Jefferies LLC, Research Division - Senior Equity Research Analyst*

Understood. And then just as a follow-up, I think, Dan, you mentioned 99% retention in 2023. And then Matt, you called out January a couple of departures. So just curious if we can get some context around maybe what happens in January and if you think retention might be slightly different, given the environment as we think about 2024 more broadly?

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

Yes. No, our sense of it is look, we got to make sure we execute on our strategy. We've got to invest in our capabilities, and we've got to deliver -- attempt to deliver an extraordinary experience on a daily basis. We have solid trends there, strengthening NPS scores, evolving capability.

We expect that retention rate in that 98.5% range to 99% range to be a good way to think about or good centering point, if you will, on retention for this year outside of the example of what Matt used, where someone sells the practice to potentially solve for succession solution.

And look, that was the exact trigger that we launched our Liquidity & Succession program a year ago, gave us a great opportunity to go solve that really important question that many advisors had. Those two examples, maybe we didn't launch ours in time enough to get a swing at those.

And though we won't win them all, we do believe we've got a really appealing differentiated solution that will position us well, not only help serve our clients who are already on our platform, we'll actually use it as a way to attract new assets to the platform because not only do we have a rich value proposition that we serve and support the daily needs, we also can help them with their succession needs. So that's how we're seeing it.

Operator

One moment for our next question. And our next question comes from the line of Ben Budish with Barclays.

Benjamin Elliot Budish - *Barclays Bank PLC, Research Division - Research Analyst*

I think most of mine have already kind of been covered, but maybe just one for Matt on the core G&A growth. Can you just talk a little bit about what gets you to the high or low end of the range. It sounds like the Prudential ramp is going to be not too impactful for this year. So what are the sort of factors that could drive that up or down? And at what point in the year do you start to get a better sense of where that shakes out?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes. I think what typically drives us within the range is the costs associated with supporting the growth that happens during the year. I think if you look at Q4 of 23, or this quarter as a good example, where we came in within our range but at the high end of the range. And that was really about the variable costs associated with growing, whether it's variable compensation associated with that growth or the direct cost to ramp up. So that's typically the driver within that range, those things.

Operator

Our next question. And our next question comes from Michael Cyprys with Morgan Stanley.

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

I just wanted to come back to, Dan, some of your comments earlier just around the slower movement of advisors across the industry that you alluded to. Curious, what's driving that? What might change that at the industry level?

I hear you on some of the services portfolio innovations that can help move it in your favor for you guys, but just at the macro backdrop for the broader industry, just curious, what might lead that churn to pick up here versus slowdown even further? And then how do you see the sort of backdrop evolving if interest rates are cut?

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

Yes, yes, good questions. Look, I do think you've got a number of different things that might create a slight headwind on movement than at the aggregate had brought it down from I don't know, historically, 7% kind of range for movement. And we would expect things to return and normalize over a period of time. These little headwinds that I referenced, some of it is still a bit of a hangover from COVID and just some of the change in complexity that was created as people work through that, I think, is one.

I think a second one is you just got -- you've had a volatile market with a lot of geopolitical uncertainty that surrounds it. And advisors avoid sometimes making big strategic moves or pivots or adjustments in periods of time where they've really got to be focused on the clients, and they don't want to create more change in the midst of uncertainty. And I think that's been something that we've seen over the last couple of years that have created some uncertainty.

And I also think you see advisors also pivoting in a new world of post-pandemic, what did they learn from that? What pressure does it put on their practices? The growing complexity of regulations may drive up costs, the whole digitalization of their businesses and their offices, and what does that mean? And how do they think about what is the best partner for them, going forward? What are the types of services that are new to them that can transform their practice?

I think just trying to assess what those options and alternatives are in a world that's flipped on the side and now you throw AI on top of that, which in the short run, creates lots of noise and exuberance, unfortunately, it's also a shiny penny that sometimes doesn't always lead to good productive outcomes.

And so I think as we get further down the road of assimilating some order to the house being flipped on its side in some cases and helping them really see where they can use technology really wisely to drive productivity with again, either leverage tools or outsource risk management to lower their costs associated with a world that's getting tougher and tougher from a regulatory standpoint, where they really do think about "Hey, how do I drive growth? And what do I need in my value proposition to do that? How do I leverage folks to do that?" I think those are some of the interesting questions that is they're able to solve those. It enables them to move forward in a little more informed way and thus at a faster pace.

So those are some of the little , I think, skirmishes, if you will, that we're trying -- we're overcoming as we go forward in time that will help return maybe movement back to a more normal 7%.

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

Great. And just as a follow-up question for Matt on promotional expense, if I adjust for the large enterprise one-timers over the past couple of years, it looks like the underlying promo expense has been in the mid- to high teens. Does that sound about right to you? And arguably, that's in the context of high singles organic growth.

So another question there. If we expect that sort of organic growth to persist in the high singles, should we expect a similar mid- to high teens pace of underlying promotional expense, going forward, excluding the large one-timers?

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Well, I think the -- probably the best way to think about it is just to hone in on the key drivers of the growth. And I'd put it in three categories, which could have different trends. I think the first is organic growth overall. That's typically the biggest driver. And the TA associated with bringing recruiting on board is a driver of that.

So the amount of recruiting that we do is really the driver there. TA rates really have not -- have been fairly stable, haven't changed recently. So I think where recruiting goes is where that would go.

The second is conference spend. And conference spend more kind of trends with the overall number of advisors that we have at LPL, right? They're really important part of how we engage with them, how they engage with each other. So as the firm scales, you could expect that spend to scale.

And then lastly, as you highlighted, it's really the onboarding expenses associated with those large enterprises. So that really can be a little bit hard to predict because it depends on the firms that come on board. Prudential is a great example. We've got good insight into spending in '24 and good insight into spending overall to bring that on board. It just depends on what happens on the other side of it.

So I'd really put it into those three categories. They kind of trend differently, each. It just depends on how those three things play out.

Operator

And our next question comes from Michael Cho with JPMorgan.

Michael Cho - *JPMorgan Chase & Co, Research Division - Research Analyst*

I just want to touch on enterprise quickly again. And I have just a quick two-parter here. You talked about a healthy pipeline and sort of an uptick in conversations since the Prudential announcement. But in terms of kind of looking ahead, I mean, does the Prudential onboarding limit your bandwidth at all to do more Prudential-type deals?

And then second, just longer term, looking beyond Prudential, I mean how should we think about framing the potential benefits to LPL's operating scale and leverage as you continue to gain critical mass within the enterprise opportunity set?

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

So look, on the first one, I think we see an interesting pipeline on both sides of that enterprise channel, as I said before, banks and on the insurance/product manufacturer-related market space. And with that portfolio comes the continued opportunity, right, to continue to explore and learn both how we're doing the existing programs and how that drives innovation to create more appeal.

And the second is every time you bring one on, how do you create a more automated process, have a better playbook to be more efficient at doing that, so you can do that better and faster and more economically at a lower cost.

And so I would tell you we're much better than we were 3 years ago when we brought our first larger enterprises on, and we continue to automate more and more of that kind of changed management of onboarding effort process. And as you rightfully said, to the excess that you're able to do that, not only are you going to create more interesting economic outcomes by lowering the amount of investment upfront in these opportunities, you also can bring them on at a faster pace.

And so I think we're working our way into being able to be very thoughtful about how we bring these on and in an orderly fashion, assuring that first and foremost, we get the experience right, that you continue to operate your existing platform at the level that you want to. And then if you -- as you, again, get better and better at that, I think we can line those up and bring those in at a faster and faster pace.

And that's what we're challenging ourselves to do without being overly precise and exactly how that would look or what that looks like. I think we begin to challenge ourselves with pragmatic opportunities to think how do you shorten that onboarding and change management work. So that's the problem we're trying to solve. Matt, you want to...

Matthew Jon Audette - *LPL Financial Holdings Inc. - CFO & Head of Business Operations*

Yes. Yes. I think the answer is a resounding yes are there benefits to scale. I think when you look at just starting high level with the overall value proposition of this channel and the things that we're building, you're bringing on clients, where they're -- once they're on their platform, a big part of the attraction is getting access to our capabilities and allowing them to grow that channel faster on our platform. So you get a place where you're increasing your levels of organic growth.

I think maybe to the core of your question, on the cost side, in each of these instances, now you're typically building out capabilities or technology that's really important to that particular enterprise, but they're usually applicable to others as well, right?

So you're not only making sure that you have the ability to serve and support this particular client that you're bringing on, but you're usually enhancing those capabilities for things that the rest of LPL or the rest of this channel would like.

And I think Pru is a very good example of that, where we're not only bringing on capabilities specific to Prudential, we're building out a platform that can actually open up a much larger channel for us and to recruit more on it. So a headline point there's certainly scaled benefits. And hopefully, those examples are helpful.

Operator

And this concludes today's question-and-answer session. I would now like to turn the conference back to Mr. Dan Arnold for closing remarks.

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

Hey, I just want to thank everyone for taking the time to join us this afternoon, and we look forward to speaking with you again next quarter. Thank you.

Operator

And this concludes today's conference call. Thank you for participating. You may now disconnect.
