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PRESENTATION

Matthew Jon Audette

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

There we go. That makes me feel good. All right. So welcome. Welcome to LPL Investor/Analyst Day. It has been 3 years since we've all been together, and I appreciate you all that are here in the room joining us.

I think we overestimated, in the Zoom COVID environment, how many would actually show up in the room versus do WebEx. So I apologize for the cramped quarters in the room. If you know me well, we were not going to spend $0.01 more than necessary for the space. So I think I misjudged that a little bit. But we're excited to have you here.

And I'll just start off with, if you see up on the screen, just take you through the plan and the agenda for today. So we're going to start off with our President and CEO, Dan Arnold, who's going to take you through our strategy overall.

He's going to be followed by Rich Steinmeier, our Head of Business Development, amongst other things, who is going to take you through really how we execute that strategy, and specifically, our affiliation models in our addressable markets and the growth opportunity that we see there.

He's then going to be followed by Kabir Sethi, who is the newest member of our management team. And he leads our product development group, right? So he's going to talk you through where all those technology dollars are going and the capabilities that we're building for our clients, for our advisers.

He's then going to be followed by Aneri Jambusaria, who leads our Services Group. So she's going to take you through the overall strategy of that group as well as some of the new offerings that we recently launched and are about to launch. So I think that will be quite exciting.

And then I will close us out, really bringing all of that content home and how we see that connecting to driving shareholder value.

Now as you see, we're going to have opportunity for Q&A within each section. So you get to talk to more than just me, which I know we typically limit you to. And then there'll be lunch available for you as we end the day.

So we're excited to get started. Before we do that though, let me cover just a few logistical items or key items. And I encourage you to look up on the page because I don't think we could possibly fit more words up there. But it's key to understand our safe harbor statement. So throughout the day today, we're going to talk through things that are forward-looking statements, right, and our views on things that will occur in the future. And they are on matters that are inherently uncertain, right? So actual results could end up varying materially from what we think here today. So I just encourage you to read that and keep that in mind as we talk through the materials today.

In addition to that, we use several non-GAAP measures to describe our business, right? We think they are really helpful for understanding how we're performing, which is why we provide them. But I would encourage you to not only read through what's up on the screen here. But you can get access to this on our Investor Relations website, including in the appendix of these materials, we actually have the reconciliation of these non-GAAP measures to their GAAP equivalent.

So with that, let's now turn to LPL overall, right, really just setting a little bit of context for the day. And I'd focus you in on the left-hand side of the page, right? Our mission, through our vision, purpose and strategy, I'd say 2 things, right? First and foremost, it is unchanged, right? And I'd focus in on our mission of taking care of our advisors so they can take care of their clients, right?

And I know you hear that at probably most companies you listen to, that we talk -- or they talk about how their clients are the center of the world and the center and focus of what they do. I would just emphasize to you, at LPL, it is tangible. It is real. It guides everything that we focus on and do. That if we focus in on what matters to our clients, the results that follow are really going to be quite positive from a financial standpoint and a shareholder return standpoint, right?

And I think just keep that in mind as we go throughout the day. And you can see some of the results, just looking on the upper right-hand side of this page, right? We're now serving over $1 trillion in client assets. We're serving and supporting over 21,000 advisors, right? And that doesn't happen by chance. It happens when you focus on what matters to them.

One other thing I'd highlight, if you look down at the bottom right-hand corner, for those that didn't see the news earlier this week, if you look at the two agency ratings down there. Moody's, on Monday evening, upgraded us one notch, which now moves LPL into the investment-grade rating. So we're quite excited about that. There's another rating on the page that's one notch below that. I don't know if you're listening or watching here, but we're available to catch up when appropriate.

So if we take that mission and that focus, maybe just look a little bit further into the results over the last 5 years, and just moving left to right across the page on the screen. When you look at our assets, if we just go back a little over 5 years ago, right? We've doubled the assets that we serve, right? If you look at the end of 2021 before the market downturn that we've seen so far this year. You look at our organic growth rate, we have tripled it, right? You look at the earnings per share that we're generating, right, we've tripled it, right? And then the resulting stock price that comes through that, this chart did look a lot better on Wednesday last week. But still up nearly 5x, right, over that period of time. And it doesn't -- again, it doesn't happen by chance. It happens by focusing in on your clients in a team that is working incredibly hard to deliver results for that group.

So if we take these results, and maybe just to set you up for the rest of the day, really, in thinking through as the rest of the team comes up here and walks through their areas and what they are working on, I just want to keep -- have you keep this page in mind, on how those activities can really translate into driving shareholder value, right?

If we just start up at the top, right? We continue to be an industry leader with scale, structural tailwinds and addressable markets that continue to grow. And you're going to hear about that today from both Dan and Rich and how those markets have now doubled since the last time we spoke to you.

Number two. We continue to focus on investing in enhancing the advisor value proposition. That is what leads to the organic growth, right?

Number three. Our business model has natural hedges to market volatility that we are seeing perform and really testing it in this year. And I'll take you through a fair bit of detail on how that's coming through.

You take those top 3 areas, which really position us to drive consistent and increasing revenue and gross profit, you combine that with disciplined expense management, that is, investing, while still delivering operating leverage, and you get a business that produces a significant amount of capital that, if we move down to number five, we continue to have a capital-light business model with a flexible framework for us to allocate that capital in ways that drive the most value.

Right? Right. So that is the core of what we do. And if we can execute on what you're going to hear today, this is how it's going to translate into shareholder value. So I will come back up in a few hours and really double-click on all these areas.

And with that, I'm happy to call up our President and CEO, Dan Arnold, who's going to take you through our strategy.

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

Good morning, everyone. As Matt was going through the agenda, I don't know if any of you noticed, but he referenced me as the President and CEO. I don't know if he knows something I don't, but -- no, no, no. I'm not going anywhere.

All right. I get to talk about the cool topic of our strategy, which I absolutely love to do, but I always like to start with how we think about where strategy fits in to a framework we have internally that we utilize to be really intentional about our success. We call this actually our success formula. And we believe, if we do each of these components really well, it will drive repeatable, sustainable success.

And I used to say like the New England Patriots, but ex-Brady, I have a hard time using that one anymore. So I don't know, maybe the Kansas City Chiefs of today. But the concept here is we've got to be great students of the marketplace, understand what's happening with respect to consumer behavior, what advisors need, what the competitive set is doing, ultimately to make sure we're well positioned to win. We got to make sure that we can execute the heck out of that strategy. Both of those things have to sit on a strong foundation of culture that drives success over the long term.

And then we -- what we've added over the last 3 years, since subsequently introducing this to you in '19, was this concept of absolutely having the best talent. We believe we do all of those things, then we achieve repeatable, sustainable success. So that's how strategy fits into that.

Let's click down and focus on the strategy, if you will. Now when we think about strategy, we always go to where the opportunity set is. And there's a lot of things to consider, but if I oversimplified here and just picked on what we believe are 3 really big structural and durable trends, we think those shape a lot and impact a lot about how we think about our strategy.

These aren't new trends to you. They've existed for a number of years. Quite frankly, over the last 3 years, they actually probably accelerated given some of the circumstances and dynamics in the marketplace.

The first one over on the left-hand side, just gets to this ongoing demand for advice, right? The world continues to get noisier and noisier, more complex. People need help in figuring that out and thinking through that, hence, the need for financial guidance or advice. And you see this number continue to increase.

In fact, we're at an all-time high for demand for financial advice today, and Cerulli projects that, by 2025, you're talking about a $30 trillion industry. You extrapolate that out to the end of the decade, you're talking about $35 trillion. So again, very resilient demand for advice, which creates a lot of macro opportunity.

You match that then with the second trend, which is this sort of ongoing appeal to receive that advice from a financial professional, right? And if you looked at satisfaction scores from investors today, they're at record highs. If you look at this chart, it represents the willingness to pay for advice, and you see that continue to move up and to the right.

We believe there's a big driver to that. And it's this concept that investors want the insight, wisdom and perspective that comes from an advisor, call that the IQ in advice. But what they also want is the understanding, the empathy, the respect, the EQ part of advice. And having absent a model that has a human at the center of that, it's harder to incorporate that all and do it in a compelling way. And so we see this trend likely to continue as we move forward.

And then if you move to the far right of that slide, you see what we've talked about for a number of years, which is this just -- the appealing attributes of the independent model are still there. They're still strong as ever. And they continue to then draw folks from the old traditional model to this independent model, and the independent model thus capturing more and more share with the overall opportunity set.

Now the nice thing about this is LPL sits at the intersection of all 3 of those trends. And as that opportunity set gets bigger and bigger, one of the things that our strategy really begins to try to take on, say, how do we maximize the opportunity within that intersection? So how do we think about then our right to win? Our positioning to go capitalize on that?

And again, if we just move from left to right on the slide. The first one reinforces that singular focus on the financial advisor and what they need to go out into the marketplace to differentiate and win. And we believe that singular focus makes us more agile and nimble about how we understand that and how we iterate and evolve our value proposition to serve and support them.

You then match that with the reputation and the positioning and the awareness as an industry leader in the model, and that leads to certainly an outsized opportunity or swings in the batter's box relative to that positioning in the marketplace.

You then couple that with a really robust platform that has lots of capabilities and opportunities that end up being a differentiator relative to its appeal to advisors, and then match that with the capacity to invest. So that platform is not just a differentiator today, but our ability to invest in it and evolve it and change it, meeting the different changing dynamics in the marketplace, and then it becomes a sustainable differentiator over time. And so that's how we think about that opportunity in the intersection and then our right to win there, which we think is somewhat unique in the marketplace.

So when you match those 2 things, opportunity set meets right to win. Then you say, "Hey, what's your strategy? What's the best way to play your hand and go position yourself within that intersection?"

I would tell you sort of the elevator view of that, or the 50,000-foot view of that, would simply be that it continues to be a value-added capabilities play, right? That more or less continues the journey that we started in '19, or the pathway we started in '19 with perhaps a more ambitious and bolder approach to how we go capitalize on that.

So if I were to sort of try to net that out with you, you should think about us continuing to invest and creating the most appealing feature-rich capability set for advisors to leverage, matched with unprecedented flexibility and optionality so that we make it the simplest platform to plug into and/or to affiliate with. And then ultimately, by doing those 2 things, we become a leverage point for any potential advisor, regardless of where they are in the life cycle of their businesses.

So if you had to put a bumper sticker on that, you might think about us as the champion for advisors in the marketplace, all with a focus on helping them make sure they can differentiate and win and be great advisors; and secondly, to make sure they can run thriving practices. And we believe if we do those things, we'll clearly differentiate ourselves in a sustainable way over time. I believe we'll likely redefine the independent model. And by doing those things, drive market share gain and shareholder value.

So that's sort of the headline, if you will, around how we think about our strategy. Let's just sort of click down into it a little bit further. And this slide probably truly does oversimplify how we think about our strategy. But for today's discussion, think about it through 2 primary lens, right?

The first one is a sort of a horizontal expansion strategy. And here, the concept is, how do we make sure that we potentially can compete for all 300,000 advisors in the marketplace? By creating more flexibility and optionality so that an advisor can create the perfect practice for themselves on our platform. Uber-personalization.

And then the second kind of lens or opportunity is vertical integration. We're all about making sure that we can provide the capabilities through the entire value chain stack within the wealth management space to ensure that that advisor can run a thriving practice better on our platform than anywhere else.

And again, I think if we can do the combination of those 2 things, then we believe we create a longer-term opportunity to serve more advisors and to serve those advisors over a longer period of time. So let's click down on both those lenses for a minute and talk about how we think about that, all right?

So the first one is this concept of horizontal expansion. Yes. In our infinite wisdom, we just stacked them vertically to talk about horizontal expansion. But those are all of the different affiliation models that exist out in the marketplace. You can think about all 300,000 advisors sitting in that left-hand of that vertical stack. And so what you see moving then to the right is, in time, how we thought about trying to serve and meet the needs of those different types of advisors.

So if you go back to '19, right? Those were our traditional models. That was our corporate RIA and hybrid RIA models in the independent advisor space, and that was in the enterprise space, our small banks and credit union solutions.

And so back in '19, that positioned us to serve about 100,000 advisors. We absolutely continued to invest and enrich and further differentiate those models. But at the same time, we challenged ourselves, well, gosh, could we take and leverage that platform, that chastity of those 2 models, and begin to perhaps add some capabilities, repackage and reposition some of the solutions such that we could reach a broader set of advisors? And that's what launched, in the middle there, those 3 solutions that we've talked a lot about over the last couple of years. Strategic Wealth went to market in 2020, and then Linsco and enhanced RIA in 2021.

Now by extending those models, we now compete, at that time, for 200,000 of the advisors in the marketplace. And I think you've seen over the last couple of years, we've added as many as 50 practices, over 150 advisors in those models. It's been cool to continuously sort of invest and position those for what we believe are really interesting, appealing models that will create sustainable growth as we go forward. So we're really excited about the momentum we have relative to competing for 200,000 advisors.

And then in 2021, we dropped down to the bottom down there on that enterprise line and challenged ourselves with the same question. Can we take the capability set we had to serve smaller institutions, and potentially, again, reposition that such that we created what was really a new outsourcing solution for larger banks?

And we launched that in 2021. We've been -- we've had the good fortune of adding about $70 billion in assets over the last couple of years with that solution. And that added another 50,000 advisors that we can now compete for. So we sit at around 250,000 out of the 300,000 advisors that we can compete for, which we believe, with very compelling and differentiated solutions in the marketplace. All right?

Now as we look forward, we see some additional opportunity to continue to extend that large enterprise model, and I'll come back to that and talk to you a little bit more about that, as well as specifically creating some new capabilities that would help us go compete for advisors that focus only on high net worth clients. So you make those couple of tweaks inside the model. And now going forward, we'd be competing for all 300,000 advisors in the marketplace, right? So that's horizontal expansion.

Now as you would imagine, this is the bridge that expands not only the number of advisors that you serve, but obviously, your addressable market in terms of assets is materially reshaped by this. And you can see, going back to '17, going forward, you see that number going from $4 trillion to $27 trillion. The doubling over the last couple of years is, again, a function of expanding our capability set in our Linsco model and employee model, and extending the number of advisors that we can compete for in the employee segment, and then also this expansion into larger institutions with our enterprise model. So those are the 2 big drivers if you think about it from kind of '19 Investor Day until now.

Okay? Now I mentioned that I'd come back to the enterprise model, there's a lot changing there. So let me just click down on that and give you a little more color on that. So we had always historically been in an enterprise model, albeit for smaller banks and credit unions as we talked about, and where we had industry leadership there.

And I think as we've then asked the question, "Could we take this new model to a new part of the market that it had never had this option around outsourcing and win with that?" And we've had the good fortune of being able, over the last 1.5 years, to do that with the likes of BMO, M&T. We just added Peoples and CUNA this year. And along the way, we've been able to continue to learn and iterate and invest and make that model even more differentiated, even more relevant to them.

If you said, "Hey, what's unique about what you're solving for with respect to them?" And you can see that up in the left-hand corner of this slide where, if you were teasing out what we had to do to really be an interesting solution and meet their needs, the first was, "Hey, can you shift my risk profile? Can you reduce the regulatory compliance and legal risk that I may have?" We certainly can do that.

The next question was, "Gosh. Can we operate in a more efficient and effective way? And can you reimagine how I do my middle office and back office work? And if so, I could reduce my cost structure and thus drive my financial performance higher." Certainly, we've achieved that with these larger institutions.

Then the question was, "Gosh. I need to improve my end investor experience. And I need new capabilities that are a bit more sophisticated that will create more demand and more opportunity at the retail level for my program, and at the same time, I can actually attract higher-quality advisors." And if we can do those things by bringing in a capability set that's more sophisticated, then we create a catalyst for top line growth for them.

So those are the things that we've been focused on and solving for those institutions. And as we've done it, and as we've refined it and as we continue to innovate in it, we realized that this same capability set and those same needs don't just sit with large banks, they also are relevant potentially in wealth management programs run by insurance companies. They also can be relevant in trust assets that are served in a different way at these large banks.

And so as you see us now moving forward, we see other channels of which to take this enterprise solution to, to expand our opportunity set, continue to create a fresh, differentiated and new outsourcing solution within that part of the market, to continue to drive growth through this model. So with respect to our overall enterprise model, given our momentum, given our continued innovation and given this expanded market, we see a durable growth opportunity as we go forward in that particular marketplace, okay? So that's horizontal expansion.

Let's flip to the other lens, which is this concept of vertical integration. Now this slide represents the -- if you will, the value chain within the wealth management ecosystem, from kind of furthest away from point of sale all the way to point of sale, all right? And the chevrons, the colored ones in different colored blues, represent sort of how we've evolved where we deliver value or what we're solving for in that overall value chain. And obviously, with vertical integration, you would expect some expansion of that over time, all right?

So if you jump down to 2022 for a second, let's just use that as a sort of a context to give a little more color on this slide. So first of all, you see the asset management category over there. And that is where we have consistently and classically and traditionally outsourced that to good asset partners, asset management partners. They continue to fulfill those needs and capabilities today in a way that strategically works for us.

And we don't believe that it's a priority for us to move back up into that part of the value chain as we sit today. So what we've been focused on is absolutely taking our positioning of strength and as a leader in kind of that intermediary section, the navy blue section, and then continuing to focus on going more towards point of sale.

And we began to explore that category that's labeled advisors over on the far right. Well, that was traditionally, in the independent model, sort of left to the advisor to figure out on their own. The intermediaries didn't necessarily step into that domain. A lot harder to solve for, a lot more personalized. Sometimes, you need local-level support. More complex to figure out, more in a variety of different ways to have to do something that made it hard to scale. And so you didn't see a lot of innovation occurring there.

Well, this is where we used our positioning, from a vertical integration standpoint, that gave us more access to go down into that part of the value chain and explore. Better understanding and IP to figure out how and what to solve for, access to the data necessarily to do it in a more digitized and automated way. And this is where we introduced to you a couple of years ago this concept of business solutions, where we would go down and focus at a local level and try to help figure out how to help an advisor run a thriving practice.

It's one thing to be a great advisor. It's another thing to run a great practice. Two hard things to do. And this is where we introduced the concepts of virtual CFO, virtual CMO and admin. It was sort of like a gig economy type of approach, where we were filling in a role that they didn't have.

Now with more and more innovation, we found, hey, it's not just the role. Sometimes, it can be the function that matters most. So think about something like bookkeeping. And then as we continued to sort of fish in what I like to call blue waters that have really been untested, we began to find more and more opportunity to not just help with running a great business, but actually to how to help them expand their value proposition so that they improve and enhance, right, their ability to win with their clients.

And this is where this concept of paraplanning that we rolled out, where if we could help an advisor go from 20 plans in their overall book of business to 200 plans and expand their value proposition to their clients, create a differentiated experience, solve more problems for that client, thus creating more revenue opportunity, well, that's a pretty compelling value proposition as you go forward.

So this business today, down at this segment of the marketplace, has largely been solved by local-level service providers that usually don't do it with a high quality, don't do it in a really integrated way and don't always do it in a cost-effective way. So we see continued opportunity, continue to solve unique problems for the advisors that ultimately become really durable differentiators as we go forward. So that's the concept of vertical integration.

Those middle dark blue chevrons, we will continue to expand our investment to make sure we're building world-class advisory platforms, that we're creating more and more automated workflows that can almost digitize what an advisor does from an administrative standpoint, and unlocks the value of their tech stack or helps them expand their wealth management or their comprehensive advice they can provide by adding things like banking services. And so those are areas that we continue to focus on in the dark blue. And these are areas that Kabir and Aneri will drill down on for you further as we go forward in the dialogue this morning, all right? That's vertical integration.

So if I clicked on a newer service within vertical integration, this is a pretty cool, new development that has occurred over the last couple of years. And it was born out of the problem, wow, we may have as many as 1/3 of advisors that retire over the next 10 years. 100,000 advisors. Well, that's an interesting problem.

So we looked at it and said, "Well, can we flip that problem on its side and figure out how we add value to it?" And if that problem potentially leads to as many as $5 trillion to $6 trillion in assets moving, maybe as many as $6 trillion to $10 trillion in assets moving, well, wow, that could be an interesting opportunity if we really add value to it. So that's how we've oriented to that challenge in the last couple of years.

Now in exploring that, what we teased out is, what the advisor is looking for, as a part of that retirement, is certainly the liquidity associated with what may be the biggest asset that they own now and that's in their business, obviously.

Second of all, though, it's not just the liquidity needs. Look, their name is on that front door. They care about the transition. They care about the legacy. They care about their teams. They care about their clients. So not only creating a liquidity solution for them, it's got to be complemented by a great sort of transition strategy. That make sense to everyone? Right? So more complex to solve for.

And what we saw is most solutions that have been coming into the marketplace, as you've seen, this consolidation of M&A occurred down at the advisor level, were way over indexed, just on solving the liquidity question. And then we're missing sort of the rest of the comprehensive sort of opportunity to add value.

The other thing that they were doing. In many cases, they were taking that model and pulling it back from independents and putting it into more of an old traditional model. The very thing that, that advisor had fought so hard to go get the sort of appealing attributes for it, they're taking that practice back and putting it into a more traditional model. Hence, our opportunity. Hence, our opportunity to reimagine how we solve for all of that, not just the liquidity piece of that.

So in 2021, we launched M&A solutions at the beginning of that year. And that was a brand-new service in our overall services portfolio that was meant to help an advisor find another advisor to potentially solve for the question of liquidity and transition and keep it all within an independent model and the appealing attributes of that independent model. To make sure that we took care of the team, took care of the end clients and ultimately took care of that advisor.

Now over the last 2 years, that solution has put together as many as 300 advisors. It's pretty cool to watch the appeal of creating a platform and helping them get to a place where, wow, this is a solution that's going to work for me. The culture is right. The transition is right. The quality of how they do that work going forward is right. And we can make those connections. Now a lot of those have happened on our platform, but there's also been some that have helped attract new advisors on to our platform because of that.

Well, in doing that, we realized, in talking to advisors that couldn't necessarily find another advisor at that moment in time that was right for them to transition their business, we realized there was actually another option that we could add into our overall portfolio of solutions to enrich how we help advisors with this big question. And this is what we call liquidity and succession solutions.

And this is our newest offering that we just introduced to the LPL advisors at Focus in August. And this concept is when an advisor doesn't really have another option of which to transition their business. The question is, "Hey, LPL, will you buy my practice?" Which we will. "And act as a bridge." Let's call that for purposes of this discussion, 5 years. "While I work towards my ultimate retirement? And during that period of time, we can position my practice to be transitioned on, and you can find another successor for me to come and continue that practice as an independent model."

So the concept would work. We'll buy the practice. We'll put it -- we'll keep it on our platform in this case. We'll serve and support it with our local-level services we've created associated with the Linsco model. And when the advisor is ready to exit, then we'll sell it back to another independent advisor, such that we continue to maintain those principles of independence. And by doing that, we've now just recycled the life, sort of time opportunity to serve that asset for another 20 to 30 years.

So we think a really cool solution that, again, is very differentiated. And it creates a compelling valuation on the practice, but really creates an elegant way of which to go through that transition and ultimately not lose the appealing attributes of independence.

So that's the concept that we've just introduced to the marketplace, specifically inside the LPL ecosystem, where we've been practicing and experimenting and trying to make sure we get this just right. You'll see us take that to the external marketplace in the first half of 2023.

So, by doing this horizontal expansion and vertical integration sort of lenses of our strategy, we believe if we do those 2 things well, we've now created a platform, a business model, an opportunity, for any potential advisor out there to plug into our platform at any time over their life cycle of their business. So this slide takes you through that. If you go over to the far left-hand side, right, traditionally, we might have an advisor join our platform through traditional recruiting or maybe even an acquisition of a practice, and that's represented in the top part of that. That doesn't change.

We've also created, through our advisor institute, the ability to bring new advisors to the industry, in through that pipeline. I think you'll see us add as many as 300 to 400 new advisors through that pipe this year. And the team continues to invest to improve and enhance that to hopefully open up the aperture of that pipe.

Then we get into what would typically be the growth or expansion phase of an advisor's practice. And do we have the capabilities necessary for them to differentiate and win? Can we help them expand their value proposition and figure out how to scale their practice such that they can thrive on our practice through that phase of their life cycle?

Then they get to that place where they're trying to optimize the practice. And do we have the ability for them to drive efficiency and cost-effective operations within their practice? Maybe they even want to change their affiliation model because we've got something that will work better for them at that moment in time. So this gives them the flexibility to ultimately design that perfect practice for themselves over the life of their business.

And then finally, you get to the moment when it's time to retire. And we've got an elegant way through, both our M&A solutions or our liquidity and succession solutions, of helping them transition into the sunset, leaving a great legacy and a thriving business behind them that we could recycle all the way back into an existing advisor's practice by selling it to them, or use it as a way to even attract a new practice to our platform.

So that's what this slide represents, and we think is a way to think about this multigenerational way, of which advisors can leverage our platform for materially longer than they had ever imagined before.

So I close with the -- maybe some key points to take away from this morning's dialogue. And again, this is high altitude. My teammates will come behind and drill down on these components. But think about us being the champion in the marketplace for advisors, all about helping them differentiate and win and all about making sure that they can run thriving businesses. We do that through horizontal and vertical expansion that creates a sustainable, differentiated solution in the marketplace.

And then I highlighted a couple of sort of newer evolutions within both that vertical integration lens and horizontal expansion lens. It just gives you a bit of a color on where we are in that journey and the opportunity that sits in front of us to continue to innovate there.

All right? With that, let's move to Q&A, and we'll close this session with that.

QUESTIONS AND ANSWERS

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

Yes, sir. You can go first, Craig?

Craig William Siegenthaler - *BofA Securities, Research Division - MD and Head of the North American Asset Managers, Brokers & Exchanges Team*

So actually, I really like that Slide 16, you articulated your -- I really like that Slide 16, I think you articulated your model pretty well. I had some questions on the recruiting front and the competitive landscape for recruiting.

So number one, how has the bear market been impacting recruiting, including the pace of the breakaway broker theme? Because sometimes that has slowed in prior bear markets.

And then also, what are you seeing on the competitive front? You have a lot of competitors that are trying to do the same thing as you are. So maybe has transition assistance changed? Maybe some other elements of that, too, please.

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

Yes. So -- and Rich is going to come up later and talk a little bit more about this. But I don't know if you want to give a couple of points of color now, I wouldn't drill too deep, and then you can come back and probably fill in a lot more of that once you've gone through your material. You want to do that?

Richard Steinmeier - *LPL Financial Holdings Inc. - MD & Divisional President, Business Development*

Yes. So thanks, Rich Steinmeier here. On the recruiting front, as we look into bear markets, specifically to address the question, what we've seen is actually -- and you'll see it in moments, the pace of advisors changing firms has actually slowed post-COVID and has not hit the levels that we were seeing pre-COVID. That has sustained at lower levels.

And beyond that, what we've seen is a lengthening of the sales cycle. So it's harder to get the attention of advisors right now as they are continuously engaging their clients. And so we have seen, during the course of this year, the number of engagements that we need just to actually transition an advisor and get through the sales cycle has -- we've required more interactions.

You're right. I think that they're -- regarding some of our competitors, they really had moved away from recruiting during the COVID environment certainly during '20 and '21, and they've come back during the course of '22 with enhanced economics in the marketplace. And so there is -- you see transition packages from players that are trying to reestablish themselves in the recruiting heightening. I don't think that we actually have to react to that. You'll see, we've had sustained performance in recruiting and feel that we're market-competitive in our offer.

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

Thanks, Rich. And I might just add, I think as we go forward, you always get past this sort of place of the initial volatility. And once we get more acclimated to this environment that we operate in, you'll see advisors begin to think more strategically about sets of options and alternatives. And so it's logical that as we move through this, we would see that the interest coming back in terms of potentially things like affiliating with a new provider. And I think that's probably reflective in our fourth quarter pipeline, as an example, where we're seeing some of that begin to occur.

Is that fair, Rich?

Right. And we'll go back here. Go to Michael and Christian. I think they were next.

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

Great. Mike Cyprys, Morgan Stanley. So you outlined a compelling vision here for serving the life cycle of an advisor and a much larger TAM today, which is basically the entire industry, it would seem. So I guess what's left on the list of capabilities that you guys need to build out to fully maximize the opportunity set? And one thing that comes to mind when you mentioned high net worth targeted advisors is lending on the liability side.

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

Yes. And I think what you'll see in those -- in sort of that middle kind of intermediary blue chevrons that I showed you, those navy blue ones, that's where think about banking and lending as a service. And I think that's why you see us exploring it. We're not necessarily trying to get into banking and lending, it's more of this comprehensive advice.

And if we can do 2 things with that. If we can offer those capabilities and services with a great client experience that's very competitive, and do that at competitive rates, then we believe that's a really interesting opportunity. And we believe as we go forward with automation and access to data and sort of with some of these digital solutions that exist out in the marketplace, I think we're finding that, that opportunity to do that as a service is much more compelling. And you'll see us deliver new solutions in 2023 with that in mind.

Kabir will cover more on that when we come back to it, okay? And I don't know that I got everything, Mike, you asked, but Kabir will cover more of that. So please ask again and come back to that.

Christian, do you want to go next?

Christian Bolu - *Autonomous Research - MD and Senior Analyst of US Capital Markets*

Sorry, just to follow up on Mike's question. On the private wealth side, again, fair to say you've done a very good job in expanding your TAM. So I think people give you a benefit of doubt in terms of new expansion. But private wealth does feel like completely out of our wheelhouse. To Mike's point, lending is a big point there, but also international capabilities and very high service levels, almost unprofitably high service levels to get into that channel. So just explain what's your pitch to a, I don't know, a Northern Trust or Goldman Private Wealth client? What's your pitch to get them to LPL? So that's the follow-up to that question.

But my actual question is on liquidity and succession planning solutions, so it's not a new idea. The wirehouses have a similar program, but for the most part, it tends to be internal advisors that essentially buyout to keep on the platform.

You seem to be saying you want to expand this outside of LPL to broader advisors. So talk about the economics of that. Are you just buying to flip businesses here? You just take the business, and 5-years time, flip it and hope it's worth more than you paid for it? Or is there some other economic rationale here? Or just talk about the economic model of that, of this solution.

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

So with all Christian's questions, we'll be here the rest of the day, right? I'm kidding. We'll come back on the first one, and Rich can hit the sort of what's the pitch to the high net worth advisor, all right? He'll cover that in a minute.

Let's go to your last point, and I'll -- I think Matt will also cover the concept of what that financial sort of impact or contribution can come from this liquidity and succession solution. But again, it's positioned as a service to the advisor, how do we solve a really important problem from them in a compelling way? It hasn't always been done in the independent space because it's hard to maintain those principles of independence.

So we would look at it like we do any other acquisition when we think about that target range of 6 to 8x EBITDA and make sure that we have an interesting entry point. While we own it for that bridge period of time, we earn a much better ROA on that and economics on that. So that enhances the sort of overall returns of those assets.

Then when you go to sell it back to an advisor, you sell it back, presumably, with some growth associated with it as we had incentive growth causes during that bridge period to maintain that growth. We've also introduced support mechanisms around that advisor to heighten the probability they can focus on their clients and leverage these resources to drive that growth.

So when we then go to sell it back to the next advisor, you get that return of capital. You'll likely get some sort of enhanced valuation on that transaction. And now you've put it in the hands of a new advisor who is in the growth phase of their career. They may use the Linsco model. They may use the Strategic Wealth model. So you might get an interesting mix shift opportunity on that.

And just as importantly, you now extend the lifetime value for another 20 to 30 years, conceptually speaking, on that. So that's how we think about the potential financial contribution of doing something like that. And Matt will provide more to you as he wraps things up. All right? Cool.

Yes, next question.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Bill Katz from Credit Suisse. So 2 questions. The first one is, as you think about migrating up in the ecosystem toward the higher net worth client, how do the gross profit ROA dynamics play out relative to your book of business, including cash monetization opportunity?

And then as you think about outsourcing now or taking the Services Group into sort of third parties, and we've talked about them a while now, is this a gateway to backfill with other services underneath that to broaden out the value proposition beyond just the M&A opportunity?

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

Yes. So Mike, on the second question. And I think -- and Aneri will cover that in a lot more detail. So think about that as we continue to see lots of opportunity to expand our solution set within that services portfolio and lots of opportunity inside the LPL ecosystem to do that.

We do still maintain the fact that, if we do that in a really high-quality way and a capable way that's then scalable, that you could take that -- those capabilities or some of those services and offer them as discrete value components to the outside marketplace. It is not on our lens today as we see lots of opportunity inside the ecosystem to do that.

I do think it sets up an interesting place in the future of when you make that strategic decision, if we did decide to pivot and go to the external marketplace, is it really worth the trade or not? And I think that's a fair question. I think it's an interesting way of which to serve more advisors. But at what extent does it undermine the differentiation of your holistic platform or solution? And that would be something that we don't know the answer to yet. But as we evolve, I think it's -- it's a nice place to be in to understand those sets of options and then make that decision. So that was the second part of your question.

Sorry. Alex, we'll move to you.

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

Maybe taking a little bit of a step back. If I think about LPL's journey over the last couple of years, you guys kind of mapped out the advisory world, like you talked about today. And the organic growth in the business went from flat to single digits to mid-single digits to kind of upper single digits. And this year, it's down a little bit because of the environment, et cetera.

So as you think about expanding into all these other verticals and kind of continuing on that journey, what does it do to LPL's organic growth profile? And what is sort of your aspirational goals for the next 2 to 3 years in terms of net new asset growth?

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

Yes. It's a good question. I think as you step back and look at sort of what's the impact from all of this.

And I think I shared it in an earnings call, I think, earlier this year. That framework of the last couple of years of 7% meets this 12% to 13%, as sort of a bookend, is a good way to think about a range that we can play in with the influence of the macro, providing, I don't know, where you land within that range. And there may be a little lumpiness in terms of enterprise deals that could influence that.

But I think that's a relevant way that we think about driving organic growth. Again, if you can really compete for most of the 300,000, if not all of the advisors that are out there with a compelling platform, that's an interesting opportunity from new store sales. The vertical integration and durability of that differentiation down at the sort of advisor level of our value proposition really can make a difference in same-store sales and the expansion of growth there.

And then, of course, all of that put together makes it hard to exit the platform. And so we do think that we see all 3 of those oars as very relevant in how we go forward in terms of working and aspiring to deliver that type of growth, and we think that's still a relevant range to think about. I hope that answered the question.

Yes. Next question.

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

Steve Chubak from Wolfe Research. Dan, I was really hoping to unpack the broader enterprise opportunity. You've had a tremendous amount of success in making a compelling pitch around the value prop for smaller banks and credit unions as we think about piggybacking off Alex's last question around the organic growth algorithm, how do you think about the long-term opportunity to drive durable, sustainable organic growth? And are the economics different? And is the value prop different for the broader enterprises versus those smaller banks and credit unions?

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

Yes, the -- maybe working backwards. And I'm going to save the financials for Matt at the end. He'll drill down into that, and so we're not redundant with that.

That said, I think, look, the value proposition is similar in that we've been able to leverage the platform. What's interesting is it's challenged us to solve things in a slightly different way, which has led to better innovation that then you go and apply to the entire enterprise solutions sleeve that you have.

So they don't have to be so discrete, it's just that there were different problems at a different scale that create new ways of which to try to go solve for those, with potential, more interesting return characteristics because of the bigger opportunity set. And so we're able to then translate those back to even the smaller enterprises, which just makes the end-to-end enterprise model more compelling.

When you look at it, look, we've added -- I mentioned $70 billion, the better part of '21 and '22, from new store sales there. I think the more we explore these big enterprises and not just think about it as sustaining, that sort of new store sales because of the compelling sort of expanded opportunity set or TAM, I think we're also beginning to find there's interesting growth potential that sits down inside of those organizations that could also be a tailwind to growth, right?

When you think about taking an institutionalized solution of paraplanning to an organization that may have 200 advisors, and they're doing it at an institutional level, leveraging the clientele that they already have inside that enterprise, that gets really interesting in terms of some of the opportunity set or the impact some of this new innovation that we're having in the solutions portfolio.

So that's where some of that, I think, opportunity between the lines, as you unlock different sort of avenues of growth, may emerge, that create even more possibilities of growth outside of just new store sales. But I do think, if we're successful at adding that type of enterprise client on an annual basis, you begin to sort of think about that level of new store sales around it. Certainly, we'll work to expand that, that's our objective, is to create a more compelling solution that is attractive to more, but that's probably a good baseline way to think about it.

All right. Just one more question. Devin?

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

Devin Ryan, JMP Securities. So Dan, I just want to come back to liquidity and succession solution. First off, I think could be really interesting, really compelling, but I'm sure we're going to get some questions on that as well.

And so I guess the question that I suspect we'll have here, LPL has always been a capital-light firm, so this is going to drive some capital intensity. So how comfortable and how much capital are you willing to maybe put towards this? Would you bring in outside parties to the extent it could really grow? Are there any specific channels in the market where this could resonate more than others? So just trying to think about the addressable opportunity here.

And then just the last piece, whether there could be risks internally of advisors feeling like maybe you're competing with them. I know that it's a bridge to bringing the business back to LPL, but just want to think about some of those as I suspect that may be the questions on the other side of it.

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

Yes, if we work a little bit back from that. And again, Matt will hit some of your questions around, let's call it, the capital allocation and how we think about that. So -- but look, I would look at this as just another form of acquisition. And we're being really agile at going down into smaller chunks within the ecosystem to solve this question.

And so at the end of the day, I think as we work back, if we can provide a really compelling comprehensive value that I described to you earlier that meets the needs of an advisor in a differentiated way versus others, then we believe that will resonate with 90% of the advisors that are out there.

There may be a few that say, "Hey, you're competing with me." But that's where our M&A solutions comes in. If there's an advisor that wants to acquire, we can partner with them and enable them, through the M&A solutions, to still grow that way. And this is more or less where an advisor hasn't found another option or alternative. So we're actually trying to fill in. "Hey. I couldn't do it through more of your M&A solutions or through another advisor. So now I'm coming to you to try to figure this out or help me with it."

So that's one thing that I think reduces the risk of it being a conflict. I'm sure there's an advisor or 2 that may see it from time to time, but that's not our desire. Our desire is to -- involving those advisors that want to grow through acquisition to be able to leverage our platform, of which to do that. So that may ask -- that competitive or strategic question.

And then I think, again, if we can create a compelling solution that is differentiated in the marketplace, that does add a valuable service or meets the needs of those advisors, and we're doing it in partnership with them and as a solution, I think people see it in the spirit of who we are and what we're about and trying to really empower these advisors to be successful over a career, and ultimately then sunsetting on what has been the value creation of their own businesses.

So that's what our sort of experience tells us up to this point. I think as we go to the marketplace and better understand that, I'm sure there will be some things that we can learn along the way that are more execution nuanced as to how to avoid that.

And then I would just, again, think about it more as from an acquisition standpoint. So it's not necessarily an untraditional way of which we've utilized our capital, it just may be that we're pointing it to a new place from an acquisition standpoint to use that capital. But Matt will talk more about that. I hope I answered your question.

All right. Hey, thanks so much for letting me be here this morning. Listen, we're going to take a short break, and then we'll come back and Rich will come up and kind of share the next leg of the strategy. All right? Thanks so much, again, for being here.

(Break)

PRESENTATION

Matt Mcafee - *Wilmington Advisors @ M&T - Senior Executive Vice President*

When M&T moved to LPL, it was really prompted by 3 things. We were really concerned that our advisor experience had fallen behind. Secondly, we knew we had a somewhat undifferentiated client experience. Some of the things we put clients through were, frankly, a little bit challenging and time-consuming. We really wanted to create a best-in-class experience for the end client. And thirdly, we were focused on shareholder returns. We wanted to develop a business model that was more profitable, leaner from a cost perspective and with the potential to grow revenue at a faster clip than we could previously.

Clients of LPL who were referrals spoke really well of the culture at LPL, their responsiveness and problem solving. LPL was also selected by M&T because it's large enough to have scale and financial standing should problems occur, but not so big that an institution of M&T's size would get lost. So it felt like a really good fit.

So when I think about the principal benefits of the partnership, I would start with the expense reductions we realized. We were able to reduced headcount by about 65 individuals, which, while it was difficult to part with team members, some of whom who had been with us for many decades, it was an acknowledgment that sometimes rather than doing every part of a value tree in-house, sometimes, you can partner with a third party, in this case LPL, and they can do it better, faster, cheaper or sometimes all of the above.

So when we thought about our operations team, when we thought about compliance and we thought about technology, we felt like LPL has built a competitive, distinctive business that would be hard to replicate at the price point that we could essentially partner together.

We're already seeing that it's easier to do business. So advisors can meet with more clients each day, each week, each month, and that translates into more productive capacity. There's less time spent doing manual work and rework. And so the opportunity to scale and grow revenue over time, we think, is a real differentiator.

From an advisor and client experience, the qualitative feedback we received has been positive. Again, a little bit challenged right around conversion. But with the passage of time, people have appreciated some of the enhancements we've been able to deliver.

ClientWorks being a really simple example of that, but even our move to MoneyGuide Pro, which is the planning system we use, these tools have really enhanced the capabilities of our advisor to be more effective, to show up more professionally. And when they're engaging with clients, the clients can notice a sharper, more polished, finished product.

The 2 things that most differentiated LPL from the competition were the strength of the technology; and secondly, the quality of the team. The technology demoed actually the best of all of the competitors, and that was from a cross-section of internal constituents that included the sales team, operations, compliance, technology and others.

But the people also stood out to us because technology can and will change. Just because it's strong today, doesn't mean it will be strong forever. And you need to have the benefit of a strong leadership team that's going to continue to invest tens of millions of dollars, or in the case of LPL, hundreds of millions of dollars, in discretionary spending to stay at that high level.

The power of culture is a real thing. When you're in a dogfight with people that you know and trust and can help you get out of difficult problems, that's the kind of partnership we wanted to build. It wasn't just who was the lowest cost or who had a shiny piece of technology, but we didn't feel like there would be good integration. We wanted the complement of people plus technology to feel really good about the partnership.

So while we know we're affiliated with a much bigger broker-dealer, LPL shows up in a way that feels small and tailored and customized to the bank that we are, and we love that about the partnership. We matter, and we felt that during the RFP phase, but we really felt it post conversion in the way LPL shows up and is committed to our mutual long-term success.

Richard Steinmeier - *LPL Financial Holdings Inc. - MD & Divisional President, Business Development*

I'm Rich Steinmeier. I run business development and corporate strategy for the firm. And I'm going to spend some time today talking a little bit more deeply about that expanded TAM, how we're going to participate in that TAM? What is our right to win? And then I'll go a little bit deeper operationally on the liquidity and succession solution that we're building and deployed.

But I will say this. Matt McAfee, who you just saw on the video, Matt is -- runs the wealth program at M&T Bank and is a real partner. And I think, hopefully, you've gotten a chance to see from that how we show up, not as a vendor, but as an integrated partner who helps for the mutual success of their program as well as we win in the end there as well. And so a lot of good things there, but they've made us better as well, and I'm really excited for that partnership and the way we continue to expand our participation with them.

So we talked a little bit already about this market opportunity, $27 trillion market opportunity that we largely put into 3 sleeves. First is that traditional independent channel, for which we've demonstrated leadership, have a current leadership position and will sustain leadership in that market.

Second is that employee channel, where we've really built new offerings to participate more fulsomely in that market and have substantial opportunity to continue to expand our market share.

And then third is enterprise. As you just heard from Matt, we think we have a very compelling opportunity in that market to be a partner to some of the most important financial institutions in the U.S.

And so as I look at those, from the person who runs -- who is responsible for running new store sales growth at the firm, I look at those shares that we have, even though we demonstrate leadership in a couple of our markets, there is still substantial opportunity for us to continue to grow and accelerate our participation in those markets.

And largely, for some of your questions already to Dan, largely, the way that we participate in that growth and gaining market share is by capturing advisors and institutions when they change firms. And so what you see here, on the left-hand side of this slide, is, as I mentioned, pre-pandemic, what you had seen for 10-years straight was very close to 6.5% advisor movement in the marketplace.

As the pandemic hit in March of 2020, you saw the nadir of movement. Moved -- very few advisors were moving in early 2020. And you can see that in that dip that went down to 5.3% during 2020. And really, that's a 15% drop in the structural movement of advisors pre-pandemic to post-pandemic. We have seen some of that begin to come back, as you see that ticking back through '21 and '22.

But beyond that, what I would point out is, it's not just that we've seen that change. One of the other structural changes we've seen is actually independent advisor movement used to be higher than the average. So it used to sit north of the 6.5% and pull up. While wirehouse churn -- we call it industry churn. While wirehouse churn usually halves that around 3.5%. We've seen those actually reverse to where we see independent advisor movement lower than the average, while we see wirehouse and regional advisor movement ticking above the average, and that is what's actually pulling it up. And that, I'll go into in a little more depth as we think about how we participate in those markets specifically.

But in spite of that 15% reduction in movement in the marketplace, what you've seen from us over the last 5 years is we've tripled our recruiting. That has to do somewhat with the efficacy of my team, and I think we run a world-class business development team.

But more so, the 2 really important measures that have driven this growth are: One, the improvement of our capability set, the introduction of business services. You'll hear from advisors that, that was the deciding factor as they looked at firms that were marginally matched at each other, and they saw our investment in our business services and business solutions, that can often be a deciding factor. In addition, Kabir will talk about all of the enhancements that we're making in our outsized investments in capabilities, and those show up to differentiate us in the marketplace as well.

You put those together with the advocacy of our existing advisors, and what you have in the marketplace is when advisors move firms, 85% of the time, their most valued insight comes from another advisor who has changed firms. That is the most valuable insight they can get, and our advisors have tremendous advocacy for being at LPL, which leads to, when an advisor is thinking about joining us and places a call to an LPL advisor, more often than not, they're going to end up joining.

So those are what's driven that tripling of our recruiting, but maybe let's click down a little bit lower and look at what's happened since we were last together in 2019. As we stated back then, we saw opportunities for this emerging market opportunity through new affiliation models. And so while you see that dark blue at the bottom is our participation in traditional markets. And like I've said, that -- you see that moved up. And then slightly ticked down over the last trailing 12 months, which has more to do, we think, and I'll go into it in a minute with, that trend down for the movement of independent advisors actually trending downward. We're not sure that, that is going to sustain long term and think that's probably a temporary market condition, and I'll explain why we think some of that might change over time.

But even with that market kind of moving up and then cresting, you see us continuing to improve and participate more in market movement by the introduction of our new affiliation models. So that was our supported independent model, which is strategic wealth services, our independent employee model, which is our Linsco offering, and then our enhanced RIA offering. And as you can see, those grew from $1 trillion in 2020 all the way up to $9 trillion -- or sorry, billion. I wish it was trillion. $1 billion up to $9 billion in the trailing 12 months. And we would expect this would continue to increase.

But the big maybe outlier as you look at this page is actually the participation in that enterprise market. Whereas we had historically participated for those credit unions and smaller financial institutions, think of that largely below $1 billion in wealth business. You've seen that steadily tick up, and I'll talk more about what that threshold is.

But as you can see, big contributions in the last couple of years. And as we look at our pipeline and the engagement, we see more of these firms questioning why they haven't outsourced already. And so we're involved in more conversations than we've ever been involved in before.

So if we try to take these each in turn, if we look at our independent -- traditional independent market, here's a little bit of where I wanted to share that opportunity. So if you think about this market, it is a largely fragmented market. There are hundreds of players that are participating in this market, and the truth is, most of them are subscale. And the challenge is that the definition of scale continues to increase.

And so their need to invest in technology, their need to respond to regulatory -- changing regulatory environment, and their ability to make those investments are increasingly challenged. And what their advisors will see is that, that is, in many cases, not the firm they think they can be with for the next 20 years.

Now the truth is, often, even though the advisors get to that point, they need a catalyst for change. And this is what we haven't seen over the last couple of years in this segment. In spite of the fact that you see individual advisors and some RIAs selling their businesses, what you haven't seen since the pandemic was large changes in some of the big networks, consolidating their broker-dealers.

So often, when you see a large network that consolidates 3 or 4 broker-dealers, you're going to see dramatically increased churn from those advisors because they're going through a transition. What you also haven't seen as much over the last couple of years are actually sales of those networks and firms, but you had seen even sponsor-to-sponsor changes as well as strategics coming in. And so in any of those events, it causes the advisors to question their affiliation.

So what you've seen is some of those levels that had been inflated over the years have come down. And so we're sitting in that kind of sub 5.5% churn in that independent advisor market. We look out into the future and see a lot of consolidation that is likely to occur in that market. We see firms that are holding multiple broker-dealers likely having to consolidate those broker-dealers. And all of those events cause churn in the marketplace.

In this segment, when churn moves, we are largely going to be the first call that is placed when those advisors are looking to change firms. And if we're not the first call, we have a very robust 125-person sales team that will likely call them not once, not twice, but probably 4 to 5 times, to make sure they understand their options as they're changing firms.

So there's a little bit of the dynamic of how that market is moving and how do we participate in this market. I kind of alluded to it already. First, I would say we are the class of this segment. We have the best-in-class capabilities, we have a higher capacity to invest. And through cycles, we have the ability to persist with our investments. And so what you see us not stepping back in this environment, but stepping forward in this environment with more capabilities and enhanced investments. And so I think that is -- that doesn't go unnoticed by advisors in the marketplace.

In addition, and I'll talk more about this on the Enterprise segment, but we are the easiest firm to join. So we do surveys of how hard it is to join firms and move from one firm to the next. In our independent survey, we are -- we have been deemed the easiest firm to join.

We have made tens of millions of dollars of investments in things like, we call it a sandbox. The ability to actually participate and train in a live production environment before you get here. So you know how to place a trade, open an account. We have a portal for advisors to move over, so they can see the status of their transition. We have live APIs with FINRA to get real-time authorization of movement as well.

We have straight-through processing of outside business activities. And so you don't actually have to submit it and wait for someone to review. 75% of the OBAs that are submitted to us actually get approved real time. These are things that may sound small, but the truth of it is, when an advisor goes through a transition, all of those small things add up, and we're taking the load off of the advisors.

Likewise, in the RIA market, the way we participate there in that traditional market is we are -- we have distinctive capabilities in that hybrid RIA. The integration of their RIA business with the broker-dealer business all on one workstation. The truth is, it's distinctive in the marketplace. In addition to that, it drives the lowest cost to serve. So we think of total cost of ownership for that RIA. And increasingly, in this segment, those RIAs are going to look to

for business services that can help them outsource and run their businesses. And so we find ourselves with a very strong offering in this segment as well.

As we turn to the employee segment, I would tell you there's a couple of things. And Christian, I really appreciated the question, and I'll try to hit it here, around how we think about how we become more bullish in our participation in this segment.

First, as we entered into the strategic wealth services and Linsco markets 3 years ago, we thought our center of gravity were going to be with smaller advisors. So if I look at Linsco, we thought that our average GDC for a Linsco advisor was going to be between $500,000 and $800,000 in production. The truth is that our average recruit is sitting around $1.2 million in production. And so what's happened is our offering is resonating with larger, more sophisticated advisors.

Likewise, in our strategic wealth services, we thought our center of gravity was going to sit closer to $300 million in AUM. The truth is that looks more like $450 million in AUM for those teams. And in fact, what you've seen is we've had several teams already above $1 billion move over and into our strategic wealth services platform.

Beyond that, we made a concerted effort about the beginning of this year, actually it was a little over a year ago, to enhance our capabilities in support of high net worth. And so you actually have seen us announce partnerships with investment banks so that the clients of our advisors have access to capital markets. You've seen us announce specialized lending partnerships for watercraft, aircraft and art lending. You've seen that our UMA solution, which Kabir will talk about in a minute, our traditional advisory solutions have ascended to be a true UMA in the marketplace, which is a critical need in that segment.

As we look in further, we will continue to build out our capabilities around alternative investments, banking and lending and specifically services in support of complex planning and long-range planning.

And as you put those together, those capabilities, we think, are exactly to the spot of what is needed to serve those high net worth segments. And as we progress, not only will we serve those high net worth folks who have some clients, but ultimately, as Dan alluded to, launch into the private wealth market.

And how have we won in these segments? The first is we have more flexible offerings for affiliation than anyone else in the marketplace: supported independence; independent employee market; and then ultimately over time, a private wealth offering. That allows us to hit different types of advisors who may want to own their own business or actually are comfortable in a W-2 model or have a construct in high net worth that could support either client ownership of that business or in a W-2.

The second, and I want to kind of slow here for 1 second, is differentiated economics. I think this is really important. The truth is that our payout model in our Linsco starts at 50 percentage points and ascends to 70. When you contrast that to other players in the marketplace, it is unambiguously the highest payout in the market by a pretty large margin because the truth on that is it's not 50 to 70 with an asterisk, you don't have a small household policy. They are paid on every dollar of production.

You don't take the first 3% from the grid and keep it to the house, that doesn't happen. That compensation I just told you is actually all cash. It's not 10% to 12% tied up in deferred nor is it triggered on carrot and stick based on whether you do lending or grow new households or whatever the novel new idea is. It is a straightforward compensation plan that is at the highest levels in the marketplace, is easy to penetrate and it resonates with advisors.

Beyond that, in addition, they actually get book ownership. So we make no claims to their clients. What's critical about this is, at the time of when they want to sell their business, that allows them to monetize the business for capital gains. Not ordinary income. So when you think about the sunset programs that exist at other firms, they're actually transitioning, and they're transitioning that through ordinary income. This, they'll actually have a salable asset that they will sell at a multiple and then basically be taxed at capital gains. We think it's differentiating for the advisors as well.

Now if I kind of trip over into that enterprise segment, this is where, as well, we're quite bullish on our offering. As Dan said, we built capabilities, we extended them up to serve larger institutions. And as we did that, we realized that adjacencies in the insurance market, product manufacturer. And as we look at those banks, they're asking us.

So in many of these financial institutions, we're dealing with the Head of Wealth. The Head of Wealth has, underneath him or her, the retail wealth business as well as the trust business. What they're asking for is an integrated, unified solution, we call it bank trust, that allows us to serve them and for them to go to market on one unified offering across their advisors and their trust officers, through one workstation, one set of advisory platforms and a solution that the end investors will see uniformly across those. They won't see 2 different types of experiences inside of the bank, and so that leads us to expand that market.

When we get into those conversations, here is where we get -- this is a little bit behind the curtain. This is actually one of the key pages we use in those conversations that we have with these large enterprises. How do they see value? The first is, as Matt McAfee articulated, we're able to improve their end investor experience pretty materially. In addition to that, we are able to improve their advisor experience. So I'll give you one small example of this.

This happened with 2 different firms we were talking to. So NIGO is the term for not in good order processing. So pushing through a new account opening process. If it gets NIGO-ed, it means it gets pushed back because it's not in good order. As we talk to some of these firms, their NIGO rates are between 40% and 60%. That means their advisors, when they're opening new accounts, have to do almost everything twice.

Just for a point of reference, our NIGO rate for some of our larger institutions, 1.86%. The delta between having every other new client application pushed back to you, and less than 2% of them, is massive. It allows the advisors to feel more confident, serve more clients and drive growth.

Additionally, 2 of the most important elements that we start with are the ability to shed that risk. So a lot of these folks are in a different regulatory environment. They use different regulators, and they are unfamiliar with SEC and FINRA regulation. And so our ability to take on that risk as well as reduce the brokerage operations burden that they have.

So most of these firms don't go to market saying, "I have distinctive supervisory capabilities," nor "distinctive brokerage operations." Those are table stakes they offload to us that allow us to reinvest in the growth in the business. And in fact, that's what we see. If you look in the middle of this, what happens more often is, because they see 10 points of margin improvement, they're actually able to reinvest in frontline advisors and grow their contribution back to the firm.

So as we've won over time, what's happened here -- and I wanted to share this slide just to share with you, the conversations we're in today are much different than the conversations we were in 3 years ago. We are talking to much larger firms, and the threshold for what is at scale has moved from $5 billion to $10 billion to $20 billion. And now we're in conversations with wealth firms that have north of $50 billion in AUM. The threshold for scale is just different than it's been in the past.

We've learned a couple of things in that market. Largely, the sales cycles are longer. So these sales cycles are north of a year, whereas traditional independent advisers can be 120 days. The kind of employee advisers can be between 6 and 9 months.

They expect a robust transition. As I already alluded to, we've made huge investments in the transition. And the interesting thing is, as Matt had alluded to, McAfee, once they get here, we actually see their growth accelerate, which works for both of us.

So Dan has already gone deeply into our liquidity and succession solution. And so I thought I'd just hit really quickly on actually how it occurs. So what happens as an advisor approaches the need to retire, they will approach us with like, let's call it, 2 to 5 years left in when they're going to work. They'll actually come to us. They'll then sell the business to us. They'll either have a successor they've identified, or we will identify a successor to work with them.

We'll move that practice into our Linsco model, into field management support, so we can offload the burdens to the advisor and then introduce the successor advisor. Over a 10-year period, the successor advisor will earn into the ownership of that business. And then ultimately, we'll fully transition that business to that earned-in new successor. And as we mentioned, we think this has an opportunity not only for advisers inside of our ecosystem, but we think it could be attractive external to the LPL ecosystem, which could drive incremental recruiting as well.

So with all of that, I've gone over a little bit, but I hope you appreciate -- I appreciate you indulging me. My teammates maybe less so, but at least it's par for the course with me.

We're actually really proud of our recruiting results. And we think that there's opportunity to continue to push and drive to higher performance through our participation and enhanced participation in that employee channel, through our -- we think, a distinctive position in supporting enterprises and as well this new opportunity in liquidity and succession.

And so thank you. With that, I'm actually going to turn it over to a video, where we're going to have a couple of our advisers share their experience in the Linsco model.

(presentation)

Kabir Sethi - *LPL Financial Holdings Inc. - MD & Chief Product Officer*

Welcome. It's kind of ironic that I'm welcoming you because I'm the newbie in the room, but I thought I'd say that anyway. By way of quick introduction, my name is Kabir Sethi, as Matt said, the newest member of the team. I joined LPL earlier this year from Merrill Lynch. I had been at Merrill for 18 years, in a variety of roles, running digital platforms, products and then for part of the time running the platforms and the consumer bank as well.

Just -- I want to give you a quick context. This presentation, by the way, is not about me, thankfully. But I do want to give you a little bit of context around what guided the decision because I do think it also sets the stage for what I'm going to talk about and what Dan and Matt and Rich have been talking about.

Aside from the team and when you look at the track record here, this is an exceptional team by any standards. A lot of the way I thought about LPL was guided by 2 beliefs, which, honestly, over time, have rapidly become facts. One is the idea that an independent model executed and run well is by far the most powerful and attractive and compelling model in wealth management. And it's a durable and sustainable competitive advantage if you know how to do that well.

The other belief also was the fact that, increasingly, when you look at winners in this space, they are the ones guided by the ability to make advisers successful. And Matt talked about this. And a lot of people talk a good game, but it truly runs in this firm's DNA in many ways. When you understand the way we work and importantly the way we think, that everything comes down to the success of financial advisers, how you enable that, how do you sustain that and then how you grow them and make them more efficient over time.

So if you keep that in mind, and I want to start -- I think a good place to start is where Dan talked about this whole idea of vertical integration. Always interested me, by the way, when we talk about vertical integration, and we have this flat line. But aside from that, those 3 chevrons are essentially the heart of what I'll be talking about, right? We continue to add capabilities there. We continue to make -- try and become better and better over there. And it's always guided by the simple fact that we are solving for what our advisers need and what matters most to them. And when you think about it like that, while there's a pretty broad range of capabilities and product solutions, it's actually quite clarifying in terms of what you need to do and where you need to go.

When we talk about integration, I think I want to try and bring this to life for you a little bit. If you look at the left side of that schematic and when you look at a typical financial advisor or even an enterprise, right, there's a wide range of solutions they have to navigate, right? It's complex. It's often risky. Quite frankly, it's expensive.

And when you look at what we deliver to them and what we're able to do by way of integration and the depth of what we offer as well as the connections we have with third parties, it starts to become really compelling to a financial advisor in terms of why they would deal with us and why this platform ultimately is the one that would be the one to make them successful. And then when you overlay the fact that our tech spend has more than doubled over 5 years, which, as you can imagine, make someone like me really happy, and we're still going, there's the ability and the opportunity to add capability over there and continuously refine what we've got.

So where that leads us in terms of just broad strategy is very simply the idea that we're focused on advisor growth, but there's also a big element of scalability and efficiency that we're able to deliver to them. And that's a big deal when you're talking to advisers who are running individual businesses and often trying to grow them. And what it does is it creates this kind of virtuous cycle, right? You have a compelling platform with demonstrated success so we can attract new advisers. Importantly, we can retain those advisers and drive their growth. And in turn, you continue to attract more advisers, and you get the benefits of scale. And done well, and as I was saying, executed well, that starts to become really, really effective.

So the question is, how do we do this? And importantly, why are we focused on the areas that I'm going to go through. And what I want to try and do is take the next few minutes to go through each of these 4. So I won't spend a lot of time on this page. But just by way of definition, think about the operating platform as a platform that our advisers work on, so the workstation and the entire suite of capabilities that connects into it or sits on it. You're obviously familiar with investment solutions and banking, and I'll talk about both of those and then the end client experience.

But really, as I was going back, I want to -- what I'd like to try and focus on is, okay, why do these things matter? And what are we trying to solve for over here? You've heard us talk about this idea of choice and flexibility. It is a huge factor in advisers being attracted to this platform because when you've been running your business and you have your own CRM, whichever third-party CRM it might be, and a wealth planning tool, to start having to change those can get really disruptive.

So the fact that we can accommodate pretty much any combination of those capabilities is a really great start. But it is a start because the second part is actually something we're having real success with, which is it's not just about you can come on to our platform with whatever you use. We will work with you to optimize that tech stack as well, right?

The point is, how can you use our platform more efficiently? Are there capabilities you aren't using? Is there a connectivity that we can build for you? And that gets to this whole idea of integrated workflows, right? When you think of workflows, think about the different tasks or the chain of tasks that advisers execute, right? And when you think of real true integration, right, not lip service, but real integration, you're thinking of an experience like I might have a prospect, and I might update that prospect record in my third-party CRM. It connects automatically to our workstation. That data downloads into a proposal generation tool that either we provide for the advisor or they have, and they can open an account on the workstation.

Now that's one of many examples, but what I just outlined is typically a set of discrete and often disconnected tasks. And when you think of the friction and the inefficiency that often a company is being able to execute that entire chain of events, the whole idea that we can get to integrated workflows and actually connect those tasks for you in a highly efficient way starts to become a real factor in the way they succeed on our platform.

And there's a couple of elements that make that happen, right? One is, of course, the technology. No doubt about that. But there's also a really deep level of experience and subject matter expertise because we've been serving this segment for so long and at scale. And that kind of knowledge about what matters to advisers and which workflows matter and where they want the connect points and what their challenges are, that's a really durable competitive advantage. That's really, really hard to replace. And you couple that with the fact that we continue to add to the capabilities that we've got in our platform, it becomes really competitive.

The second of those 4 boxes in terms of wealth management solutions, think about this as the investment products, right? And again, the way we approach this is trying to solve for what matters most in the context of advisers' practices. Increasingly, where we are focused is personalizing -- this whole idea of personalized portfolio management, right?

Rich talked about the fact that we've built out a UMA, and we continue to expand our SMA menu. But we're also increasingly focused on, okay, how can we align what we do and what advisers do to customize SMA capabilities to investor needs and preferences, really get more fine-tuned about that. And then as you get there, as many of you know, you get to a really cool tax management story as well in terms of benefits advisers can deliver to their end clients. And it starts to become really compelling, and we've entered an age where we do have the ability to personalize at that level and continue evolving that, right?

There's the other aspect of what advisers do, which goes back to that theme of simplification, right? I mean we obviously have a pretty evolved model-based portfolio. But increasingly also, if you look at some of the tasks that take up a lot of time, trading, rebalancing, we continue to add capabilities over there to make that a lot easier. And those are these highly transactional tasks. They happen every day. They happen many times a day, right? They can take up a lot of time. And when you start to automate and streamline a lot of those tasks, the productivity benefits add up, and they add up fast.

And then thirdly, we will continue to obviously expand the breadth and depth of what we have, right? We've talked about alternatives. We're continuing to push there. But it's not just new products. It's even getting into areas like the purchasing process. So support advisers with things like subject matter experts on product desks to be able to support them with the proposal generation capabilities, whatever it might be, right? So that journey is going to continue. But ultimately, the reason we're focused on investment products, the reasons that wealth management solutions matter so much is because we're solving for these elements of what advisers want, the personalization, the simplification and the expansion and them being able to provide comprehensive advice.

And on the subject of comprehensive advice, and this gets back to Mike, Christian, the questions you'd asked, the idea of banking and lending is not new in wealth management, right? But in our construct, when we're looking to give our advisers all the solutions they need to serve their clients, this becomes a really attractive opportunity. And we've got some capabilities now, and we continue to build them out. I didn't realize that when we hired Bill Sappington, that he'd become some kind of a household name. But we are serious about this space, and there's a real opportunity, especially when you think of credit capabilities and we talk about private wealth. Those start to become the necessary areas where we need to evolve what we've got.

And similarly, when you look at cash management and the transactional banking component, that just starts to give advisers the ability to manage the entire financial lives of the clients they deal with and in an increasingly sophisticated way. And especially as we continue to personalize that experience and mine information, we're able to give them a level of insight into their client relationships and meaningful conversations that they can have that is typically very difficult for someone to access by themselves.

So we've talked about advisers. And when you get to the end client experience and what we're solving for there, it actually is quite a cool way that we're looking at it because for us, again, the whole idea is that a great digital experience is defined by the one that makes the advisor relationship as meaningful as possible and gives them the ability to serve their end clients in whatever way the end client and the advisor need.

And when you think about it like that, you still think about self-serve capabilities because there's a natural efficiency component. So that's important. But you start thinking about it much more broadly, right? The whole idea of personalized content and insights that the advisor can actually serve up and we can digitally serve to the advisor, those start to become really interesting areas that we can get to.

And you start thinking of collaboration very differently. It's not just about calls and Zoom, et cetera, but it's starting to get to things like real-time collaboration. And if you have a client who wants some kind of a guided workflow to open a new account with us, how do you enable the advisor to do that? And you start thinking of this whole idea of engagement between the advisor and the end client very differently. And that's why this vision around the end client experience, where the advisor has to be at the center of it, is a really interesting way to think about it. And we're seeing a lot of success in terms of just what we're rolling out and how advisers and end clients are responding to that.

The last part I want to talk about is research because, again, we approach research, I would say, a little differently and, frankly, quite broadly. And what I mean by that is what we're trying to do is make sure, again, that our advisers are in a position to provide the best and most meaningful content to their clients at the right time, right, when the clients want to have that conversation. And where you get with that is, one, obviously, the breadth and depth is really important. So we're building out -- continuing to build out the research team. And frankly, as we add more products and asset classes, obviously, we're going to have the expertise to support that. And so that's a big part of the priority.

The second piece in the middle, though, also gets to aside from just the creation of the content. There is the distribution, which is significant when you're talking about 21,000 advisers and getting each one of them the ability to share content with clients whenever needed. So that's when you start thinking about things like AI-based engines that will serve up content to advisers at the right time. And the advisor can share that content to the entire client base or prospects or some clients. You start thinking about technology combined with content and research in a very different way from the way typical shops think about it.

And then making the content accessible to our advisers across the entire gamut of our digital ecosystem, right? Because again, if what we're trying to solve for is that advisers should be able to access the content whenever and however they want, it needs to be accessible to them in multiple places. And whether you come up with a concept of a resource center, natural language search that gets them there or notifications to advisers when new content gets posted, there are multiple ways that you can center the -- keep the advisor at the center of the content that we're sharing.

So hopefully, that was helpful and gives you a sense of what we're trying to do on the platform. To close out, the bullet points here, I think I've been through, right? And obviously, we're going to take questions.

The last point I just want to make is this really guides us. When you look at those words at the bottom there, they aren't intended to be taglines as much as intentionally staying grounded in what I talked about in terms of what matters most to our financial advisers because this is an easy space to get distracted in by the next cool thing or by the next thing that you think might make a headline. But really, what matters at the end of the day is taking out friction and giving our advisers efficiency and helping them grow.

We are in an age where we are increasingly able to use information in many ways, and I talked about some examples about how targeting can get fine-tuned. And you can get to personalized insights, and so you can get to generally intelligent, smart platforms that work for the advisor. And then the journey towards making the -- our experiences personalized will never end, right? We continue to go deeper and deeper there across segments, across individual advisers. But at the end of the day, what we're designing for is not 1, 5 or 10 experiences. It's 21,000 experiences in an age where we have a sophisticated enough platform and enough investment to continue enabling that.

So I hope that was helpful. Thank you for the time, and thank you for being here. And with that, Rich and I would be glad to take questions because he left before you could ask him any.

QUESTIONS AND ANSWERS

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

Gerry O'Hara, Jefferies. So I think earlier, you mentioned that the assets in motion from the wirehouses actually begin to increase a little bit. I was hoping you might be able to just give us a little bit more color there. It seems like they're fighting back with additional capabilities and whatnot. Is that leading to some of the longer sales cycles? Or what else are you seeing there from a competitive dynamic that might be making it a little bit harder for those assets or perhaps little bit less motion for some of those assets?

Richard Steinmeier - *LPL Financial Holdings Inc. - MD & Divisional President, Business Development*

Yes. So I'll tell you the one thing that Dan taught me, right, when I came to the firm. I started talking about who our primary competitors were. And out of the gate, the first week I worked here, he said our primary competitor is actually inertia. These are advisers, even though we say, hey, 6%, 5% move in any given year, that means 95% are staying in place.

As you look into the wires, the truth is, those advisers are largely in a model. When they -- when you run -- and I think Cerulli has run this out. Their preferred segment for service over time is actually independence, yet they stay in a W2 model inside of the wires and the regionals. And some of that has to do with comfort and not wanting to take on some of the burdens that they've taken on in the past. And the truth is the reason those sales cycles are usually longer is the complexity of the practice itself.

They're usually larger practices. They're usually more complex. And if they're coming out into independence, that means they've got to think about real estate, getting into real estate, how they think about benefits. There's just much more complexity in that movement than it would be moving from one wire to another wire. So that's what drives the durations.

They've actually been driven out a little bit more because in the post-COVID environment, for us to take down real estate -- and we do that on behalf of the advisers inside of the strategic wealth model as well as our Linsco model, the builds of real estate are actually elongating because it's harder to get permitting, it's harder to get furniture, installation. So some of those things that you don't think about actually lead to those longer durations.

So that's actually what I think is leading to the lengthening of the sales cycles. You certainly see they're strong competitors. They're responding to try to retain their advisers. I just think, over time, most of the advisers in the marketplace actually stated preference would be move into independent channels.

Craig William Siegenthaler - *BofA Securities, Research Division - MD and Head of the North American Asset Managers, Brokers & Exchanges Team*

So my question is on your alternative investment offering. What exactly do you offer today? Roughly what percentage of your AUA is from alts, including like nontraded BDCs and nontraded REITs? And do you have a significant offering of like private equity drawdown funds?

Kabir Sethi - *LPL Financial Holdings Inc. - MD & Chief Product Officer*

So we have -- we've got around what I would characterize as an evolving offering like 50-plus sort of products on the shelf. Really, if I had to characterize what we need to do, there's 2 broad areas, right? One, we're working on the middle office, the whole custodial services, right? We need that to be able to have a real platform. And then the second part, and I talked about a little bit about the purchasing process, is what we're doing, what we need to do at the front end, around order entry.

The percentages aren't large, with the numbers I just told you. And if you think about our overall assets, I mean it's actually pretty small right now. It is an area, if you had to ask us in terms of the product areas in the wealth management solutions or even broadly what we are looking to evolve fastest, especially because of new segments, et cetera, I would say it's alternatives, and I'd say it's the banking and lending capabilities.

Richard Steinmeier - *LPL Financial Holdings Inc. - MD & Divisional President, Business Development*

Alex?

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

Two questions. One, on the kind of business development and one on the capabilities. So you mentioned that the enterprise solution pipeline is building. I think you said there's even $50 billion type of deals in the pipeline. Can you help us just characterize how that pipeline stands today? And I guess more importantly, as you think about the experience you had with some of the earlier wins, how the gross profit ROA is evolving and those -- and kind of how that could improve. So that's the first question.

The second one is on capabilities. And help us frame maybe the build versus buy decision. And if you have to buy something, where would that be? And would that include anything capital markets or banking related? Or those are likely going to be still kind of partnerships the way you have them structured today?

Richard Steinmeier - *LPL Financial Holdings Inc. - MD & Divisional President, Business Development*

Okay. Okay. Let's hit those kind of in turn. So the first, on the gross profit ROA, Matt Audette is going to speak to that specifically inside of his section, so I'll let him hit that. Around pipeline, what we've seen build, and it's actually almost sequential, is we've seen inside of -- as we've served larger financial institutions, we've seen other large financial institutions begin to question their operating model. And so we've seen a build into large financial institutions. Beyond that, as we've extended into discussions on the insurance side, we've seen a build into those insurance wealth management segments as well. As well, product manufacturers.

So in the past, as we've looked at the build to our pipeline, it had been pretty narrowly defined on credit unions and what we now characterize as small to mid financial institutions. It's now broadened. As well, we brought on those other 2. I'm probably not at liberty to characterize exactly the size of the pipeline. But the thought is that we not only are expanding in small to mid. There's a new category there that really was unlocked by M&T, BMO and then CUNA Mutual Group, larger firms looking at us, and then different types of firms realizing that we are a viable option. So it's really almost now, at this point, 3 pipelines that build on to each other that we call and characterize as enterprise.

Kabir Sethi - *LPL Financial Holdings Inc. - MD & Chief Product Officer*

Yes. So on the build versus buy, I'll go broad first, and then we can talk about the banking piece. For us, actually, it's a continuum, which is there's build and buy and there's whole flavors of partnerships in between, right? And so the decision will always come down to what we're solving for and all the normal things you would expect, right, in terms of cost, in terms of the experience we're delivering.

More importantly than anything else is always going to be what we're solving for, for the advisers, right? So you've seen us make acquisitions like Blaze, AdvisoryWorld. You've seen us build obviously a bunch of stuff, and we could get into that in detail. And like I said, there's a whole range of partnerships, which actually is a really interesting space just given the proliferation of firms in this space.

On the banking side, we definitely believe that the partnerships there, right, and evolving that is a great way to build a platform, right? You have in that space, as you know, this ability to deliver banking as a service, right? You have an end client experience that is very high quality. And frankly, because of all that, the economics actually are quite favorable, especially when you couple it with the kind of scale that we -- and the leverage that we have. So I think in that space, we've definitely got a lot of room to grow just based on partnerships and what we might do ourselves.

Richard Steinmeier - *LPL Financial Holdings Inc. - MD & Divisional President, Business Development*

I'll move over here. I haven't moved my eyes this way. Steven? And then we'll come back. And I see there's 3 questions in the center section.

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

Steve Chubak at Wolfe Research. I also have 2 questions. They'll be -- hopefully warrant shorter responses just to accommodate everyone else. The first is just on lead gen, is something that had been talked about in the past. Kabir I heard you mentioned that, whether that's a capability you might look to add.

And for you, Rich, I was hoping you could speak to the competitive landscape within the enterprise channel. We've heard some of your competitors talk about making a bigger push there. I was hoping you could speak to how your offering compares to some of the other ones that are out there.

Kabir Sethi - *LPL Financial Holdings Inc. - MD & Chief Product Officer*

Yes. So I'll go by and I will be quick. Lead gen is an area we continue to push on. I mean I didn't speak about it, quite frankly, Steve, because we're still working on testing a few different ideas. I think the way I'd characterize it is highly promising, but we do need to get to the right capability set that we think we can scale across our entire advisor base. So more to come.

Richard Steinmeier - *LPL Financial Holdings Inc. - MD & Divisional President, Business Development*

So on the competitive front, what we'll see in that enterprise segment is largely they'll have -- it's actually very similar to the page that Kabir brought up. If you saw that page on the right-hand side, it had a list of various and sundry vendors that are plugged together, I would say, in a less than fully integrated solution. That's largely going to consist of a custodian plus a TAMP plus themselves acting as a BD.

And so what we've heard reflected, and I think you actually heard it in Matt McAfee's reflection of how we participate with them, is we actually step forward as a partner. We're not one of a collection of vendors that is not properly integrated. We step forward with a holistic solution. It's actually what's resonating in the marketplace, is that I get to have a partner who is connected to me to drive growth, which is different than managing a collection of vendors, none of which are coordinated nor are they collectively moving towards an outcome, which for us is the improvement of that program for the enterprise as well as accelerated growth.

So are there players that participate in that market? Do we run into players? Yes, we do. And there are some pretty good players in that marketplace as well. And so most of these firms are going to through an RFP process. They're going to start with the incumbents, which is largely going to be the TAMP plus the custodian, and then they'll introduce us and a couple of other providers. We have -- for that fully outsourced solution, we're north of 60% share in the marketplace. And so we are going to be one that is strongly considered in that fully outsourced solution.

We'll come back. Yes, Mike?

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

Mike Cyprys, Morgan Stanley. I also have a 2-parter here. Just on the recruitment front for advisers, you mentioned them as an advocate for LPL. Maybe you could just help remind us of what sort of Net Promoter Scores you guys are seeing and how that's evolved. And then just on the technology capability side, you mentioned mobile. Can you just expand on where you guys are today in terms of your mobile offering? What do you guys need to add over the next year or 2? And maybe you could talk a little bit how you think about insourcing versus outsourcing that capability set?

Richard Steinmeier - *LPL Financial Holdings Inc. - MD & Divisional President, Business Development*

So I'm actually going to turn the Net Promoter Score question over to Dan and then go to the insourcing and outsourcing. It's on. I think it just has to be activated.

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

I mean I've turned it off. Can you all hear me? Awesome. I got lucky. Yes. So part of our strategy, as you all know, is this concept of how we go execute. The strategy is built around plays. One of those plays is creating an industry-leading experience for both the advisers and then subsequently their clients.

And so we look at our overall offering from a -- and feedback across multiple lenses, one being in NPS, which gives us a holistic view of how we're doing across a number of segments, not just the day-to-day service, but technology capabilities, the risk management partnership and oversight, et cetera. And we continue to see scores improve. We muscled through the pandemic. I think we took a little hit during the great resignation as we just had probably not the best optics to understand what was occurring there.

Now we've improved much better, and now we'll stay in front of that. But I think post recovering from that, we continue to see strong improvement in our NPS scores. And we continue to strive to use automation, technology, robotics, AI and ultimately better trained professionals of which to continue to drive that score up into the right. That's the concept we think about that.

Richard Steinmeier - *LPL Financial Holdings Inc. - MD & Divisional President, Business Development*

Mike, I'd just add one thing. We were at our Focus conference in Denver, and we had a collection. And as Dan had alluded, we have 25 teams plus in SWS, Strategic Wealth Services, and 25 teams plus now in Linsco. We had separate cocktail receptions for those teams. We keep them as a subcommunity. And their strength in the conviction around our culture and us being advocates and us treating them as clients, I think, came through in a very tangible way that makes them very outspoken on behalf of both of those emerging practices as well as our large number of advisers who are strong advocates. So it's -- I don't think it's just the NPS, but it also has to do with the way we show up every day culturally.

Kabir Sethi - *LPL Financial Holdings Inc. - MD & Chief Product Officer*

On the -- really quickly on the mobile. So we've moved to a place now in our end client experience to a new platform where we're adding capabilities quite fast, right, both online and mobile. You asked about the kinds of capabilities. The way I'd sort of categorize them is there's wealth capabilities that we've got a lot of the basic capabilities in place, the transactional deposit-type capabilities.

The kinds of things you're going to see us getting into, especially as we evolve banking and lending, is going to be more broader transactional capabilities that you would expect if you're banking and investing with us, right, as an end client. A lot of it is starting to get to cash management and just financial planning as well. That's another area.

And then the way I -- there's a real need that we -- our end clients have around just collaboration and being able to update information themselves. And it sounds a bit mundane, but it's a huge productivity driver for advisers. And it's the kind of thing where our end clients actually are quite happy to do a lot of that stuff themselves. And then you start -- once -- as you know, once you have that, you keep building on it. So it's going to be a journey that we'll be on for a while.

Richard Steinmeier - *LPL Financial Holdings Inc. - MD & Divisional President, Business Development*

So the last question was Christian -- 4-parter, I'm sure.

Christian Bolu - *Autonomous Research - MD and Senior Analyst of US Capital Markets*

Only 2-parter. One for you and one for Kabir. So Rich, just talk about transition assistance. I think there have been some press reports that LPL has almost doubled what it's paying advisers and recruiters into your end to bring assets. So curious if that's in the right ballpark. Is that a function of just better economics because rates are higher? Or is it some broader competitive issues that are driving the higher TA?

And then for Kabir, can you talk about the ability -- LPL's ability to offer personalized solutions? I think Morgan Stanley's probably at the leading edge in terms of capabilities here. We talk about the Next Best Action as an example there. So how does LPL compare? What do you need to invest in to get to best-in-class levels?

Richard Steinmeier - *LPL Financial Holdings Inc. - MD & Divisional President, Business Development*

Sure. So I'm going to be able to answer the first part pretty quickly. The truth is we keep a separation of church and state when it comes to transition assistance. So my team is the sales team. And Matt's team is actually -- we partner directly, and they do the underwriting for all of our advisers that joined the platform. And he's going to talk about the uses of capital and I think can probably reflect how TA is underwritten. But it hasn't changed. It's consistent and it's in partnership with finance.

Kabir Sethi - *LPL Financial Holdings Inc. - MD & Chief Product Officer*

On the part that you asked, the way I'd categorize it -- so one, we're well on that journey, right? And I talked about it in the context of the end client experience. There's a few different flavors of it. One, there's real opportunity around insights, right? For us, a lot of it is delivering the insights to the advisers. And in context, timing matters a lot. So we have the ability to mine data now at a very detailed level. Sometimes you can pick up the phone and just chat with the client. To us, there's a commercial aspect to it, but the bigger part of it is that same point, which is how do you drive the engagement between the advisor and the client.

The second flavor of it, which is a huge opportunity, is content, which I actually don't think very many people do, which is whether you're talking about research or you're talking about broader content beyond that, how do you actually serve it up to advisers based on their end client preferences? And again, how do you actually marry that with the right timing, right? Market volatility is -- there's a certain type of content you would serve. And so there's a real opportunity there on our platform to be able to evolve what we do in a very, very personalized way.

Richard Steinmeier - *LPL Financial Holdings Inc. - MD & Divisional President, Business Development*

Thank you so much for the questions. We've run our time. And so we'll have a brief break, and we'll be followed by Aneri Jambusaria. Thank you, everyone.

(Break)

PRESENTATION

Aneri Jambusaria - *LPL Financial Holdings Inc. - EVP, Head of LPL Services Group*

(presentation) All right. Good morning, everyone. Nice to see you. I'm Aneri Jambusaria, and I lead our Services Group here at LPL. And I'm excited today to continue on the vertical integration journey that could be Kabir starting us off with and continuing down the chain towards what we think of as the last mile of the wealth management experience and specifically in the areas of operating and growing a wealth business and engaging with end clients.

So now join me in thinking about these elements of the wealth management experience from the standpoint of a prospective LPL advisor. Maybe it's someone who's considering a move to independence. And in doing so and thinking about how they're going to deliver that last mile, they're thinking about how best to assemble a high-performing wealth management team, right?

And specifically, they're thinking about needing a client service associate and a paraplanner to deliver expert service and advice to their clients. They're thinking about financial and marketing support to help grow their business, establish their brand and make sure their business is protected.

And they're thinking about everything that's needed to assemble this full-service wealth team to be able to set their team up for success. And we see this challenge looming large amongst many prospective LPL advisers. And it's for good reason.

Hiring a full-service wealth team can be really daunting. There's a lot of hiring, training, team management required, oftentimes in areas that are beyond a financial adviser's comfort zone. And even amongst our core model here at LPL, we're hearing from many advisers and enterprises that they're looking for our support in that last mile of the wealth management experience. As the bar gets higher and higher for the customer experience in wealth management, our customers are looking for extended team members with expertise in wealth management that can help them move their business forward.

So with that as context, 4 years ago, we started on a journey to help advisers and enterprises execute on their biggest opportunities. And today, our LPL Services Group, we provide a contemporary alternative to assembling that full-service wealth team. And in doing so, we enable our customers to create their perfect practice and operate on their own terms. And we focus by enabling that last mile of the wealth management experience, and we do that by operating shoulder to shoulder with our advisers and enterprises at a local level.

Our services are human-led, tech-enabled. So that means they're powered by a team of LPL employees who are experts in everything from client administration to bookkeeping to financial planning and more. And behind that team is a platform with leading proprietary and third-party technology to help supercharge their efforts and help our customers make the best use of leading wealth technology.

And our service is focused in 2 key areas. The first focus is helping to deliver great advice. And this includes things like helping advisers do more financial planning or helping them deliver great advice to a client who has some more sophisticated or complex data. And then as it relates to running the thriving business, this includes things like streamlining client administration, developing a digital brand and presence as well as planning and protecting for the future.

So back in 2018, we started this journey with an experiment that we called Business Solutions. And it included a suite of 3 business services that are still thriving today: our Admin Solutions offering, CFO Solutions and Marketing Solutions. Over time, we added additional protection services, including the assurance plan, the M&A premium buyer program and the digital office. And earlier this year, we launched a new area of support, our planning and advice services. And this includes the Paraplanning Service that we launched earlier this year as well as a new Partial Book Sales service that I'll talk a little bit more about in a bit that just soft launched last week.

So in total, our LPL Services Group, we now have 9 services in market, and we're serving 2,900 advisers. And that reflects about 14% of LPL's overall customer base of 21,000 and growing financial advisers. We see our typical customer using multiple services, on average, 1.4 services per advisor, with about 1/4 of our advisers using multiple services, some even investing $100,000 a year or more annually for us to operate as an extension of their team.

So when we think about the market opportunity in this space, professional services for wealth represents an exciting market opportunity in and of itself. Even just amongst our LPL advisers, we see over $2 billion spent annually on practice support. And that might actually be underestimating the real opportunity because we know many could be investing even more in their growth than they do today. And similarly, as we expect the demand for financial advice to grow, we also anticipate the demand for services in this space will continue to grow over time.

And we're already seeing this opportunity come to life. In just a few short years, our services now represent a $34 million run rate revenue business, and we believe there is tremendous growth opportunity as we look ahead. And we also see that we are well positioned to capture on this opportunity given our expertise in serving wealth businesses, our well-formed innovation muscle and our capacity to invest in a meaningful way in the client experience.

So with that, let's hover for a second on that innovation muscle that I mentioned. We've developed a really strong organizational capability around innovation in the services space for this last mile of the wealth management experience. And we believe that it's a durable differentiator for this business.

Our ability to develop and deliver new services is a core tenet of our long-term growth goals in this space. We want to be our customers' first call when they have a need for support in that last mile. And to do that, we need to make sure we have the breadth of services that span across the range of their needs. It will help us to both attract new customers as well as deepen relationships with existing customers.

So to do that, we've built the structured approach to innovation that you see over here. And it starts, first and foremost, with the customer and really understanding the most compelling problems that both our advisers and our enterprises are facing. We then evaluate potential services to address those challenges.

And we typically look at 3 key dimensions. One is desirability. So we think about do our customers want this. And are they willing to pay for it? The second lens we look at is feasibility, meaning can we credibly deliver this service? And then lastly, we look at viability, meaning is there a path to profitability for this service, especially as the service grows and scales over time? And we consider looking at all 3 of these lenses through piloting a service where we work with real customers, and we actually design and iterate the service in tandem with that.

And as we learn, sometimes we learn that our ideas don't work out exactly as planned during the pilot, and sometimes it happens. And when that happens, we go back to the drawing board, and we iterate from there. Our work is not done at once we've launched a service. And in fact, we get the most insightful learnings about 6 to 9 months after the launch of one of our services in what we call the acceleration phase. And this is when we take the opportunity to make additional adjustments to the product, the delivery, the experience and the value proposition.

So with that as context of approach, I'd love to highlight 3 of the services that we launched just this past year that went through that innovation process that I just walked through. So I'll start first off with Paraplanning Services. And you heard from some of the videos both the Claritas team and SmithSandlin talk about the service.

Financial planning is a growing focus area in wealth management and for good reason, right? It's one of those known drivers of advice for growth. We know that it drives better end client outcomes as well as deeper end client relationships. And we learned through our discovery that many advisers and enterprises intuitively know this, but they're still struggling to do financial planning at the levels that they'd like.

And we dug in deeper. Some of them shared with us that they just didn't have the time to do financial planning or didn't feel like they were ready to hire a full-time paraplanner. Others shared with us that they've really built out a financial planning program within their firm, but their team needed additional support to deliver at the levels that they're looking at.

So to meet these needs, we launched our paraplanning solution earlier this year, which is really focused on helping advisers and enterprises to do more financial planning. And it's been a super cool journey. We've seen strong adoption of this service with the key benefits cited primarily being increased productivity as well as expanded use and knowledge of their financial planning software.

The other interesting thing about the service is we're also seeing the majority of our customers take this opportunity to turn financial planning into a revenue stream for their business. And that's what makes this service unique because for many of our advisers, it's actually not a cost center, it's a profit center for them.

Okay. So next up, let me talk about bookkeeping services, which we just launched in September. So this service came about from learnings from our CFO solutions offering. We discovered that in order to deliver high-quality business advice, we needed the foundation of high-quality financial reporting.

And we also learned that advisers didn't always have great alternatives in this space. Many advisers were doing bookkeeping themselves off the corner of their desks, oftentimes maybe by a family member like a spouse. We heard from other folks that they were working with a local bookkeeper in their community, but that person may not have that perspective of the wealth management industry and be able to support them effectively.

And so we're excited about our new bookkeeping service, and we're seeing positive early signs. And part of the reason why we think this is happening is because many advisers are viewing bookkeeping as one of those non-negotiables, right? Something that you've got to do no matter what. And so we're excited to see what the future holds and for growing and scaling this offering.

Okay. The last one I want to touch on is actually a new service that we just soft launched last week, and it's a Partial Book Sales service. So one of the things that we learned through our discovery is that many advisers over time have accumulated a wide range of clients with divergent needs, service expectations and account sizes.

And we've learned that from many advisers that are looking to either focus on growth or evolving their niche, they're looking for a way to reshape their book of business. And so we created a Partial Book Sales offering, where LPL will acquire these generally smaller accounts from our clients as a service to them. And then we will provide those end clients with personalized advice and service from our investor-focused solutions team, which is LPL's in-house virtual advice team.

This whole process is enabled through proprietary technology that we've built. It's a partial book transfer tool, and it's an end-to-end digital experience that helps advisers to identify, process and transfer those households to LPL all digitally.

And the last thing I'll mention here is, in contrast to other client acquisition alternatives that are available to advisers, we're seeing that our Partial Book Sales service, it enables a very warm handoff of those clients from the advisor to LPL and ensures continuity in their LPL experience. So again, we're still in soft launch with this service, but we're seeing some promising signs and look forward to sharing more with you.

Okay. So in addition to these new services and incremental revenue that we're seeing directly associated with the services that we're developing, we're also seeing additional benefits to LPL's organic growth driven by our services. So the first one I want to highlight is expanding the TAM. You heard Dan and Rich talk about the importance of expanding the TAM in terms of our long-term growth strategy.

And one of the things that we've learned is that in order to attract higher-value teams and new advisor profiles, many of those advisers are looking for more supported version of independence, one with services embedded within their affiliation. And that's why for both our strategic wealth as well as the Linsco by LPL Financial offering, our services are embedded in both of those affiliation models.

And as we expand affiliation models and offerings going forward, including how we serve high-net-worth-oriented advisers, we expect services to continue to play a key role in those growing affiliation models.

The next thing I'll touch on are higher-performing advisers. So when we started off this study, we had a hypothesis that if we can really help advisers focus on the things that matter, it's going to help them to become better performing and drive faster growth, and we're seeing this come to life. So subscribers to our services are growing 28% faster than similarly sized and located peers. And this extends to both their ability to acquire new clients as well as deepen relationships with existing clients.

The last thing I want to mention is just the partnership that we're building. We're in a really privileged position because we are operating at a local level with our advisers and enterprises working shoulder to shoulder with their teams. And we're seeing that this creates some increased connectivity between those teams and LPL, and that's showing up in a few different ways.

Most notably, a lot of advisers are sharing that our services are the part of their LPL experience where they get the most value. And in fact, our subscribers to our services are 22% more likely to recommend LPL to one of their fellow financial advisers. And so our expectation is that, especially as we grow the adoption of our services to a wider range of customers as well as across a wider range of our assets under management that it's going to drive overall asset retention and stickiness with LPL.

So given that, let me just quickly share some of our strategic priorities for 2023. So first and foremost, we're focused on growing our customer base. So today, we've got about 14% penetration, as I mentioned, amongst our LPL advisor. We see a lot of opportunity to continue to grow that adoption.

And one of the big ways that we're going to do that is through our second priority, which is launching new services. We believe that continuing to develop new services within this portfolio is going to help us unlock additional customers to our ecosystem as well as drive the third priority as well, which is deeper relationships with those clients.

We're going to be focused on expanding the value propositions of our existing services as well as ensuring that advisers and enterprises who use our services have the opportunity to leverage multiple services where it makes sense.

Okay. So with that, I just want to leave you with a few key takeaways. First and foremost, we are incredibly excited about this amazing opportunity that we see. We really see this last mile in the wealth management experience as a blue ocean opportunity, and we see lots of opportunity for us to continue to innovate and develop new offerings and better support advisers and enterprises along the way.

The second thing I'll mention, like a lot of companies, we found that innovating in that last mile of the wealth management experience, it's complex. It's challenging. But that's what makes our success in this space even more durable, differentiated and hard to replicate.

And the last thing I'll mention is that we are excited about the potential for these services to continue to drive substantial value in terms of the additional revenue it can generate, in terms of the additional benefits to LPL's long-term organic growth strategy, and of course, culminating into value for shareholders.

So thanks so much, and I welcome your questions.

QUESTIONS AND ANSWERS

Christopher John Allen - *Citigroup Inc., Research Division - MD*

Chris Allen, Citi. I mean the growth dynamics seem very compelling just in terms of your subscribers versus your nonsubscribers. I'm kind of surprised the penetration rate is where it is? What's the biggest hurdle for penetration in terms of, why is the adoption even higher than it is? Then just in terms of new product development, what's something you guys don't have on the table that advisers are asking for right now?

Aneri Jambusaria - *LPL Financial Holdings Inc. - EVP, Head of LPL Services Group*

Yes, great question. So one of the things that I think we hear a lot from advisers is that they're looking for our opinion and perspective on what services they should be using, right? We noticed a lot of advisers and enterprises are really in the process of designing what they want their last mile to look like. And it's a really consultative and ongoing conversation that we have with them to really design what it is that they're looking for.

And so part of what we're focused on, especially as we look ahead, is trying to reduce as much -- to make that as simple as possible for them, right? So think about opportunities to be able to package services together that meet specific profiles, right? So I think that's one of the bigger opportunities that we see where we'll be focused on.

To address your next question -- I'm sorry, you have to remind me what it was.

New services, yes. So from a new services perspective, so again, we've got a great innovation pipeline that we're excited about. Probably, the big space where we're doing a lot of innovation right now continues to be in the planning and the advice space.

So Paraplanning Services was a great foundational offering in the financial planning space, but we're seeing many advisers interested in additional levels of support in financial planning. And so one of the areas that we think is really interesting is tax planning.

So tax planning is 1 of the 7 steps of financial planning. It's a great way for financial advisers to identify opportunities for their clients to save money on future taxes, and especially in this kind of environment where the investment returns are more challenged and advisers are looking for additional ways to differentiate. We've seen a lot of interest in some tax planning support. So that's one of the key areas we're looking at as we look ahead.

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

Mike Cyprys from Morgan Stanley. Just 2 questions here. Just on the TAM, the $2 billion. Maybe you could help unpack what the competitive landscape is across the industry for that. Who do you see as the top players? And when you think about your capability set today, how much of that $2 billion TAM can your current platform serve, is the first question? And then I'll come up on top with the second.

Aneri Jambusaria - *LPL Financial Holdings Inc. - EVP, Head of LPL Services Group*

Okay. Yes. So when you take a step back and you look at the TAM, it's primarily local providers within advisers' communities that are providing this level of business support. So it's actually quite fragmented from what we see. There aren't very many players in the wealth management space that are able to deliver some of these services that are tailored towards financial advisers at scale. That's part of what makes us really excited about this space and this market opportunity is that it actually feels like the competitive landscape is quite addressable for us.

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

Great. And then just a follow-up question just around the pilot that you guys continue to launch. Were there any that you've launched in the past couple of years or maybe the feedback wasn't what you were expecting or looking for maybe something flopped? Just curious what you learned? How you guys responded? And how that sort of experience informed your view around broadly feasibility, viability of services in general?

Aneri Jambusaria - *LPL Financial Holdings Inc. - EVP, Head of LPL Services Group*

Yes, it's a great question. So I'd say, one of the services where we've made quite a bit of evolution since our launch was actually our Admin Solutions offering. So Admin Solutions was one of those where we had really strong product market fit from the beginning, right?

Customers, advisers and enterprises really wanted more administrative support, and there was a frequent ongoing desire to have us operate in this space. I think one of the big learnings that we had along the way was making sure that we are kind of defining and scaling our service, right? Making sure that we're defining what are the key elements of our value proposition, what does our scope list look like, and how do we scale that over time.

And part of this is about setting expectations effectively with our customers. Part of it is also about the employee experience and making sure that our employees are well set up to deliver on the admin experience. And so because of a lot of these changes, we've seen steady improvements in the Net Promoter Score for that service, and it continues to be one of our best-selling services as a result.

Christian Bolu - *Autonomous Research - MD and Senior Analyst of US Capital Markets*

The value prop for services just seems to make a lot of sense. So I'm surprised it's actually not higher than the 14% initially you talked about. I'd imagine -- I don't know, it's probably harder to get an existing advisor, I don't know a 60-year-old, setting their ways to take on a new thing to the workflow. So maybe a better representation of your batting average would be new-to-firm advisers. So can you just talk about adoption levels within new-to-firm advisers?

Aneri Jambusaria - *LPL Financial Holdings Inc. - EVP, Head of LPL Services Group*

Yes, it's a great point, and that is certainly a focus area for us. And we see the opportunity for new-to-LPL advisers taking shape in 2 forms. One, as we've talked about, are the affiliation models, right? So especially for advisers who are coming to LPL that are looking for a more supported version of independence, we're embedding our services within that experience.

And then separately, to your point, we also see the experience of joining LPL as a great point to start adopting services, whether it be Paraplanning or doing a partial book sale or starting to use a Bookkeeping Service. And so we're increasingly positioning our services at the point of transition to LPL, and our perspective is that, that will help drive adoption at that point.

Christian Bolu - *Autonomous Research - MD and Senior Analyst of US Capital Markets*

Any numbers around that?

Aneri Jambusaria - *LPL Financial Holdings Inc. - EVP, Head of LPL Services Group*

Yes. I don't think we'll be sharing numbers around that, but just to say, it continues to be a big opportunity for us. All right. Any other questions?

Okay. Thanks, everyone. Appreciate the time. So with that I think -- we're going to take a short break, and when we come back, we'll hear from Matt Audette.

(Break)

PRESENTATION

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

All right. We're almost there, everybody. Last section. So I'm going to talk about shareholder value creation, and I was pretty excited to get up here today and talk through that. And I just having watched all of you get up here and walk through it, and I knew everything you were going to say, I'm even more fired up, right? More excited about the opportunity that we have.

And as I shared this morning, right, if you look up on the screen, I'm going to walk through value creation and really bridging the strategy into the 5 areas that you see on the screen.

And I'm going to start with our industry leadership at scale, right? And I think you've heard this from the team, but from -- if you move from left to right across the page, right, the continued growing demand for advice coupled with the independent channel gaining share.

And when you take that environment and couple it with our positions, right, leading share in our traditional markets, and then the opportunity to now compete for $27 trillion, right? It is a big opportunity, and I think what's incumbent upon us is really to operationalize the strategy that you've heard here today and how we go attack that and how we go win.

Now how that strategy shows up on our financial results. So we'll move on to that in a second, but from a little bit of a double click, I want to focus in on the enterprise market for a second. And specifically, the economics, and I'll focus you in on the center of this page, right? And it's a combination of an offering that can drive value for our clients, right?

We look to the top half of that page from helping them accelerate their own growth to actually reducing their costs and reducing their risk, right? It's a really compelling offer from their perspective.

And then you look at it from our side, right, on the bottom of the center panel, right, and really consistent across the enterprise market from the smaller opportunities to the larger opportunities, right? It's a compelling return for us, right?

The gross profit returns are lower than our core business, but our TA is underwritten to factor that in. The cost to support it also gets the same benefits of scale that leads to something that is a compelling operating margin, right? You have one of those classic win-wins where we've got a capability that's helpful on both sides.

And you combine that with the left-hand side of this page and our ability to go from competing for $1 trillion to $5 trillion. It's a big part of what we're excited about as we move forward with our strategy.

Now if we turn to really the second area, where we're investing to enhance the advisor value proposition and drive growth, right? And you heard a lot about this from the team, especially, Kabir, of the areas that we're focused on investing in, which are on the left-hand side of the page, right?

I want to focus in on the right-hand side, which is where we're allocating our capital to really support and drive this, right? So upper right hand is our core G&A, right? And as we've gotten bigger as a firm as we've gotten greater operating margins, we have more capacity, more wherewithal to invest in those capabilities, and you can see that visually culminating with this year. We're growing our core G&A 12% to 13%. A big part of that is our focus on technology, which you can see in the bottom right-hand corner of the page.

And the key is, these investments are focused on supporting our clients, our advisers to ensure that they have what they need to run a thriving practice, and so they can grow, right? When you pivot to our growth that's come out of this, right? Our organic growth, look on the left-hand side of the page, our overall organic growth has gone from something that was really towards the bottom of our industry, especially if you get to the periods prior to what's on the page, 2016 and prior, right?

And now when you look at the most recent full year, being able to deliver 13% organic growth, right? That's something that comes from a focus on investing in what drives value for clients. Now when those assets get on our system, it's also important on how we monetize that, how we generate revenue from that.

And the key here on this slide is, if you look at the very bottom, the more services that we provide to advisers, the more revenue that we're going to generate. And you can start in the bottom left-hand corner with our brokerage offering, right? Typically 15 to 20 basis points of gross profit ROA.

You move into the advisory platforms where you're providing more service, that moves up on average about 10 basis points. You then move into our more supported models, strategic wealth and the independent employee model or Linsco, right? You're adding another 5 basis points for the services that we provide there.

You move into our centrally managed platforms, where advisers can actually outsource the investment management to us. You're adding another 5 basis points.

And then you build in what Aneri just walked you through the Services Group and the breadth of the offering there and if they're using that, you can add another 5 basis points. So you take something that can go from a brokerage offering that was our history at 15 to 20 basis points and now something with a potential to be more than double that to 40 to 45 bps.

Now if we move into the third area that I want to talk through, our resilient business model and the natural hedges to market volatility, right? I think everybody is well attuned to this in general, but especially this year, right? We look at the top half of the page and specifically, interest rates. And when interest rates go up, our returns go up, right? If you just see what's happened so far this year as interest rates have gone from near 0 to 375 basis points, right? From a run rate standpoint, that's nearly $1.2 billion in annualized gross profit.

And then you look at the bottom half of the page on the offsets to when you have market declines, right? When markets go down, if we look at that cash sweep balance, what typically occurs is advisers will reposition their clients a little bit of a risk-off mode, right? They'll have cash that they want to make sure that they have for rebalancing.

And if you just look in the blue box, the first half of this year, cash balance is up $13 billion. And in this interest rate environment, the run rate benefit of that from a gross profit standpoint is nearly $0.5 billion.

And then lastly, on the bottom of the page, you also have transaction revenue from that rebalancing. So when you take a step back, I think the key of this page from a focus on our clients and our advisers. We have the ability with our business model in various market environments to be able to have a balance sheet and a financial wherewithal to be able to continue to focus on serving and supporting and investing them, right? And now all firms have that, and they recognize that. It's a big part of our foundational value proposition to be able to serve them.

Now one area that I know is of no interest, but I'm going to cover it anyways, is the economics of our cash sweep program. And I'm going to go over 3 areas on the left-hand side of this page. And first and foremost, at the top is the nature of our cash balances, right? Whether they're operational sensitivity or interest rate sensitivity. And as you've heard me say before, they continue to be largely operational, right? The balances move up and down primarily based on market sentiment as opposed to being driven by the level of interest rates.

And you can see that on the right-hand chart as if we just look all the way on the right-hand side, what we've seen happen this year, right? As interest rates have gone up, this is through the end of the third quarter. So you just see 300 basis points there, now 375. You can see cash balances going up, not only as a percent of AUM at 6.4%, but also in the balances themselves.

And I've talked about before, we -- you can see a range of this -- these balances move anywhere from 4.5% all the way up to 7%, depending on the market environment, right? So it's a bit contained because overall, these are largely small balances.

Now the second thing I would highlight is our ability to place cash with third-party banks, right? And if you look at 2021, you see that kind of lighter blue box, right? With all the liquidity put into the marketplace during the pandemic, banks got to a place where they just had more enough cash, right? They couldn't take on any more third-party sweeps from folks like us, and we had to overflow that into a money market product, which is not really designed for a sweep program.

As we thought about how do we solve that, we actually implemented a new construct and a new account, which is our client cash account. And it is very simply, if we find ourselves in a situation again where third-party banks are not able to take our deposits, we can actually overflow that onto our own balance sheet, invest that in short-term treasuries and actually earn in economics that are -- that's largely similar to what we would get from third-party banks.

Now back to that far right-hand side of the upper right-hand corner, where we sit today, we're actually able to place the balances that we want to place with third parties, right? Because that market demand has really come back, but if we find ourselves in a place where we could no longer do that, we now have a capability to be able to do that ourselves and really preserve the economics.

Now lastly, on the bottom left-hand side, kind of building on where the marketplace is today, specifically on fixed rate balances, right? And this is a key part of our strategy really to reduce the volatility in our economics, in our earnings due to short-term movements in interest rates, right?

And you can see visually on the bottom right-hand corner. We started this program in size back in 2018, putting $7.5 billion in balances. And as the pandemic hit, the demand similar to demand overall came down.

But I'd focus in on the bottom right-hand corner of what we've been able to do so far this year, right? Nearly $9 billion in just the first 3 quarters, which is an excess of what we're able to do and the biggest year that we did this prepandemic in 2018.

Now this market, of course, is harder to predict, right? Because not only is it about the liquidity demands for those third-party banks, but it's also their appetite for an interest rate risk perspective. But I would emphasize that what we've seen so far this year and the environment we're in, demand continues to come back.

Now lastly on cash - go to the next slide and just speak to deposit betas, right? So the sensitivity of the interest rate on these deposits from a client standpoint. And in the headline -- and I'll focus you on the top right-hand corner of the slide, is deposit betas this cycle continue to be a bit lower than the last cycle.

So if you think about the last cycle, 2015 to 2019, deposit betas for us averaged in the 15% zone, peaked at around 25% of that last hike. What we're seeing now is something a little bit below that, around 10%. And if you look at the very bottom right-hand corner of the screen, you can see for the most recent hikes, including up to 375. We're now at an incremental beta of 20%.

So it just tells you that the nature of this product. It's not an interest rate-sensitive product, it's really cash awaiting investment, cash awaiting to pay fees and other things. And that's why you see interest rates on this product and not just with us, but across the industry remaining relatively low.

So with that, I'm going to move into our fourth area, right? So disciplined expense management, while at the same time, driving operating leverage. And I'll start here with our principles and our strategy, which is in the upper left-hand corner. And our focus is unchanged, right? It's about driving operating leverage in the core business, and we do that in 2 ways. We drive -- make investments that drive growth and we couple that with productivity and efficiency that really drives that operating leverage expansion, right?

And then I would emphasize the last point in that box, right? We adjust based on the marketplace that we're in. And to talk a bit about the environment that we're in right now. If you look at the bottom half of the page and maybe the bottom right-hand corner, if you just take the last 4 quarters of our results, so the last year and you take the interest rate increases that have already occurred and to show the annualized run rate benefit of that, you can see 57% op margin, EBITDA over $2 billion. So it's in that environment when you couple it with the opportunity set that you've heard from my teammates today, we think we're in a position to invest more in our business and that's going to drive value.

So to give you a little perspective on that, if you look in the upper right-hand corner, our core G&A investments this year, as I talked about a little bit earlier, we're growing at a rate of around 12% to 13%, right? And I think when we look at the combination of the opportunity we have and the financial environment we're in, we think that opportunity to invest in 2023 is slightly higher, call it in the ballpark of a 15% growth rate in 2023.

Now we're still in the midst of finalizing those plans. We'll share our finalized plans like we typically do on our fourth quarter earnings call and also highlight and go back to that fourth item in the upper left-hand corner. We will adjust as the environment adjusts, right?

So if the environment becomes materially different than we are today, then we'll adjust to that environment. But what I'd emphasize is, where we sit today, we think the balance of delivering an operating margin expansion, coupled with the investments that are on this page, put together is going to drive long-term shareholder value.

So with that, we'll get to the last area, capital-light business model with a flexible allocation framework. And this is unchanged, right? You've got our principles on the left-hand side. You've got our allocation framework on the right-hand side. We continue to see and believe investments in organic growth are the highest and best use of our capital, right? M&A is second; returning capital to shareholders through share repurchases and dividends is third.

And to connect this framework to our liquidity and succession offering, which I think is a little bit of a unique example to allocate capital to M&A like we typically do, but in a way that can actually set us up to serve and drive more organic growth.

So to get a little bit deeper into that. So the offering itself, which is summarized on the left-hand side of the page that you've heard from both Dan and Rich. I want to spend a little bit of time on the financial side of it, which is on the right-hand side of the page.

So I'll just start in the upper right-hand corner, right? We're building a team and infrastructure to support this offering, right? And I would just think of this as like expanding your M&A team. This is not a dramatic investment in an infrastructure that you may think of that are at other firms. This is us putting in a team that can really facilitate the transition of practices from the current advisor to the successor advisers that you heard from Dan and Rich.

Now we're already in market. If you look at that third bullet in the upper right-hand corner, we've already completed 2 deals. And we've got a pipeline of 4 additional deals that are expected to close in the next few months, so in early 2023.

Now to put some numbers behind this, if you look at the bottom right-hand corner, right? I think at the highest level, this is about deepening the connection with LPL, getting from an advisor who is ready for retirement or ready for liquidity and getting this to a place to their successor who is well attuned and connected to our offering and is positioned to grow.

And the capital that we're going to put behind that from an economic standpoint, while we own the practice, roughly doubles our ROA. So if we're earning 30 basis points, we're now earning 60 basis points. From a cost of acquiring those practices, it is consistent with our M&A framework, where we allocate capital in the 6 to 8x EBITDA range. And of course, there could be deals that are smaller than that and larger than that, but I think it's a good center of gravity is in that 6 to 8x zone.

And then if you just convert that to the size of the practices, like how much money, how many dollars are we talking about here? Very last bullet, average deal size $10 million to $20 million.

So that is the liquidity and succession offering. I think you could tell from the team being up here, we think we're excited about it. I think we're solving for something that is a need in the marketplace. Solving for it with a very efficient use of capital and setting somebody up to be at LPL for a long, long time.

Now turning to our capital structure and our leverage ratio. So if you look in the bottom half of the page, our balance sheet principles and specifically, that first bullet, right? Our balance sheet strategy is unchanged, right? We want to make sure that we're maintaining a strong balance sheet that can absorb volatility in the market while continuing to have that capacity to invest for growth, right?

And it's really, really important that we maintain those 2 things. And when we take that principle and apply it to the environment we're in, right? If you look on the top half of the page is our earnings profiles continue to grow in this environment that naturally pushes down that leverage ratio from that earnings growth.

So in thinking through that, and this is what I talked a bit about on our last earnings call, if you couple that balance sheet strategy and that earnings growth, I think we're really focused on making sure we strike the right balance between those 2 points, preserving balance sheet strength and investing for growth, right? We think the right level to do that is that new target range that we have that is in that 1.5 to 2.5x zone.

So with that, so let's move on returning capital to shareholders. So what you see on this slide is really our history over the last 5, 6 years. We are a consistent return of capital to shareholders through share repurchases and dividends. And you can see visually that we adjust to the environment we're in, and we adjust based on the opportunities that we have to allocate capital to organic growth and M&A that would come before this.

And what I wanted to do is give you a little bit of additional context on our recent share repurchase authorization. So if you look in the upper right-hand side of the page, we recently announced a $2 billion authorization. And we were focused on an amount that we expected we could execute on over roughly 2 years.

And to put that in perspective, if you look on the left-hand side, so our last share repurchase authorization was at the end of 2018. It was $1 billion, and it took us 4 years to complete it. Of course, COVID happened during that period of time, right? So there were some adjustments in the environment, but it was $1 billion over 4 years.

And if you look at this plan to the right of it, we've got double the amount in half the time, right? And I think it's a great perspective on -- in addition to the capital we're allocating to organic growth and potentially to M&A, we've got capacity to do $2 billion of share repurchases in half the time that we did last time.

Now I would emphasize on the right-hand side of the page, right? There are factors that could cause us to adjust, especially if we get into areas where there are more opportunities to invest for organic growth. There are more opportunities to invest in M&A, we then we'd slow down, right?

And then the opposite is the case. If there are fewer opportunities to invest for organic growth, fewer opportunities for M&A, then we can speed up, right? And I think the key here is, we see allocating capital across all 3 of those areas is great returns, and we're going to be very flexible and dynamic depending on the environment we're in and the opportunities that we see.

So with that, I'll move on a little bit to M&A. And I think we continue to believe, if you look on the left-hand side of the page, specifically in our traditional markets, we have a leadership position, but the rest of the market is really fragmented, right?

In the environment that we're in, we think is conducive for M&A to continue. The reasons for that are on the right-hand side of the page. You can imagine firms that are much, much smaller than us trying to compete with the value proposition that you've heard from the team here today, right? They don't have the financial wherewithal to do that.

And at some point, I think we've got conviction that over a long period of time, right, the highest and best use for their clients and their firm may be partnering with LPL. So there's a big, a big opportunity there.

This slide just gives you some examples on where we've done acquisitions or where we've done M&A in the last several years. And I'll focus you in up on the top of the page. It's more about the categories, right? So traditional markets, you can see the examples there where these are about growing our core business.

In new markets, right, Allen & Company is an example. That's how we entered into the employee model, right? So we can establish a new market. And then capabilities, right? We don't need to build every single thing ourselves. We don't need to necessarily integrate with third parties. There are certain instances where it does make sense to own those capabilities, right? So if there's a good return and it's supportive of our value proposition, we're interested from an M&A standpoint.

Okay. So a couple of things to close out before we get to Q&A. And if we look up on this slide, right, I walked you through this 3 years ago in 2019 to really summarize our overall objective strategy, which is, if you focus in on the upper left-hand side, right, focusing in our investments on doing what's important to our clients, right?

If we invest in differentiated capabilities and advisor experience, we're going to be able to achieve what's in the upper right-hand side, attract assets and advisers to our platform that use our services, which will generate revenue. You couple that with the bottom right-hand side where we remain disciplined on expenses. We generate excess capital that we can deploy, including returning capital to shareholders.

We're going to drive, as you see at the bottom center of the page, additional earnings and EPS. And we have additional earnings and EPS. We are going to have more capacity to go back up to the left-hand side, right? It is that virtuous cycle. It is that proverbial flywheel that we want to try and achieve. And I think standing here 3 years later, looking at our results, it's happening. It gives us conviction that this is what we want to continue to do, focusing on our clients, investing in what matters to them and really good things follow.

So with that, just to summarize the day, and then we'll get into Q&A, really 6 takeaways that I think from my perspective in really connecting to shareholder value, right? First and foremost, our addressable markets have doubled, competing for $27 trillion. Within that, the expanded enterprise opportunity is something that we're especially excited about where we can bring an offering that solves for economics and growth on both sides, right?

Third, the liquidity and succession capabilities, especially over the next 10 years, present an opportunity for us to use our capital to help bridge advisers to the next generation on our platform, right? You couple that with the Services Group that Aneri took you through, not only is it an innovation engine for the firm, but supporting advisers and helping them run their practices and grow their business.

Then you take number five, our financial wherewithal and our opportunity in this environment to accelerate those investments, and I think advances past our competitors and then doing all of that with being able to do number 6, returning capital to shareholders at the fastest pace in our history.

So it is an exciting picture for us. It's incumbent upon us to actually go execute and deliver this. But I think as a team, we feel pretty confident about the opportunity in front of us.

So with that, we will move to questions. We favor over here. Let's start over here. I'll start with Steve.

QUESTIONS AND ANSWERS

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

It's very kind of you, Matt. I was hoping you could share a little bit of color on the FRG acquisition and how that fit into the expanded TAM that you're contemplating in the enterprise market?

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

Sure. And I think that acquisition did 2 things. One, I think within the enterprise market, not necessarily an expansion of the market, but more of a capability to have us grow within that market because they're not only are there in our traditional markets. We also have the managed program, which is just a different flavor of the opportunities in the enterprise market where in addition to everything that we do, we're also going over to the employee side and actually helping manage the employee aspects of that offering.

So think of it as almost a new market with how we compete within the enterprise is a key part of that, and the team that's there is really good at that. So we've been able to both acquire a team that's quite good at it and then can help us build our opportunity going forward from here.

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

That's right. If I could ask one more just on like the normalized core G&A growth algorithm, can certainly appreciate that this is a unique opportunity that you can take advantage of a big rate windfall, and you're going to lean in, in terms of core G&A and incremental spend. As we think about it on a through-the-cycle lens, Dan had talked about the 7% to 13% organic growth. What's the appropriate level of through-the-cycle core G&A growth that's needed to support that level of robust NNA growth?

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

Yes. And I think -- and it's not 15%. I think when you look at the 15%, you've got a combination of -- and I'll put them in 3 in a few broad buckets, right? You've got a combination of just the core support for the firm that as it gets larger that you need to invest in to properly support. You get into then a piece of it that is about building and establishing new capabilities, a lot of which that we talk through here today.

And then the third bucket becomes when you're bringing on firms the size of an M&T and BMO and you've seen us specifically give incremental guidance for firms of that size. So it ends up showing up in those 3 buckets. But I think if you're thinking about the 15% in this year, I'd emphasize 2 things. It's about being opportunistic in an environment like we have today or we expect to have in 2023 to be able to invest and advance our strategy. And it's about -- a lot of it's about establishing new capabilities as opposed to supporting the current organic growth that will drive and position us for growth in the future.

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

Gerry O'Hara, Jefferies. So just appreciate the comments kind of around the ICA rate and third-party demand for fixed maturities. But I suppose, all things being equal, how should we think about the pacing of that sort of into your 50% to 75% range? And what other sort of factors might kind of slow or accelerate that?

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

Yes. Well, the primary factor is really the availability in the marketplace. I mean, I think the approach we've taken on fixed for -- especially bridging post pandemic is, we're below our target range. We've moved up to, call it, the 40% zone right? And we're focused on that 50% to 70%. So it's really about availability in the marketplace, right?

So there's offerings out there we're interested. So I think once we get into that range, then it becomes about a dynamic of where are the cash balances, right? If they're up at that 7% zone, that cash may not stick around for 4 or 5 years, right? So we probably target the lower end of the range. And it also depends on where the interest rate environment is and the curve is.

So we'll make the judgments based on that environment, but I think from the -- what would help get us to that range is really availability in the marketplace and that's been improving. We'll do one more over here, Bill, and then I'll come over to side.

William Raymond Katz - *Crédit Suisse AG, Research Division - MD*

Bill Katz, Credit Suisse. So 2 part, keep the theme going. Just coming back to a follow-up on Steven's question. What do you think the cycle is right now to support that 7% to 10% growth of NNA. Is that 15% in the next couple of years? Or is that the fact that rates are such a tailwind this year? You can really lean in, accelerate and then normalize the expense growth into '24?

And then second theme is, can you just sort of clarify a little bit in terms of as you migrate into wealth management and the enterprise platform that you will stay a capital-light platform? Or is your potential here to actually take on capital markets or banking balance sheet risk?

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

A hard no on that second one, right? Capital-light model, there's -- that is unchanged. I think on the first one, I think, the 15% is not -- just to emphasize the prior answer, right, that is us being opportunistic in this environment to invest in capabilities and establishing capabilities and in advancing things that in a different environment, we may have done over several years.

So it's about the environment that we're in. I would not take away that, that's something necessary to support 13% organic growth. As you saw in 2021, right, we didn't grow our expenses nearly that level to support that level of growth.

All right. Brennan.

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

Appreciate the hard no on the capital-light question. But you did -- you are introducing a couple of things that do use more balance sheet, right? CCA uses balance sheet and the liquidity and succession plan uses some balance sheet. So I guess for my first question, I did want to do a 2 parter but 2 themes just to keep it going. How do you limit the balance sheet use in those 2 efforts? And was the reduction in the leverage ratio related to the use of balance sheet in your plan...

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

Yes. So CCA doesn't use balance sheet. So if you think about the elegance of the capital-light model, and I think that's maybe I'll emphasize that we're investing in short-term treasuries, 90 days or less, there's no significant change in capital necessary to do that, right? That's -- if you started to try and go out above and beyond that, then you start to get into more capital intensive.

So that product, right, which is not using really much balance sheet space today, would not be something that utilizes capital, right? So it's a capital-light product within our capital-light framework.

And then liquidity and succession, I would just emphasize when you think about the opportunity for us to deploy capital in M&A, right, which is an opportunity set that's a key part of our capital allocation framework, this fits right in there, 6 to 8x EBITDA from an acquisition standpoint.

And then you have the benefit of it. You're now -- you've built an infrastructure, a relatively light infrastructure to then oversee that practice and actually putting it in a place where it's using more of our capabilities and setting it up to grow at an even faster pace, all while having gross profit ROA that's doubled, right?

So from a -- I see that as a capital return strategy, which is right in the center of capital light. And I think to your point on our leverage ratio, our leverage ratio is about balancing the ability to have a strong balance sheet going into an environment that maybe is unexpected and could cause other firms to actually not be able to invest, not be able to serve and support their clients. Like that has served us so well over the last 5, 6 years, it just increases our conviction that, that is the right approach for the balance sheet, and it's actually a supporter of our value proposition that ultimately drives organic growth.

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

Okay. It seems like you're leaning in on...

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

That was only the first question...

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

Yes, that's right. Yes, so A, 1, B. So in any event enterprise...

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

It's back to school up here.

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

Leaning into enterprise a little bit. You talked about banks and the fact that there's a little more demand for fixed ICA. Are you also seeing potential enterprise partners have a little bit more desire to hold on to the deposits? And so are some of those discussions about future enterprise partners may be excluding the deposit piece? And if so, how are you adjusting those?

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

As we recruit those financial institutions...

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

Other side of the equation.

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

Yes, the vast majority have their sweep deposits with us, right? It is a rarity where they'll keep it on their balance sheet, meaning the wealth management cash on their balance sheet. So we haven't seen that change. Craig then Christian.

Craig William Siegenthaler - *BofA Securities, Research Division - MD and Head of the North American Asset Managers, Brokers & Exchanges Team*

I only have one question.

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

Maybe we'll give you 2 just because you only had one.

Craig William Siegenthaler - *BofA Securities, Research Division - MD and Head of the North American Asset Managers, Brokers & Exchanges Team*

No -- one is fine. I'm okay with one. So hitting on M&A for a second. You guys have self-clearing capabilities. Many potential targets do not. This is especially helpful now with higher rates. Can you talk about how LPL may be a better home for these properties? And maybe help us think about quantifying the economic benefit if it, if you view it as a better home?

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

Yes, I think it's an absolute advantage in the M&A environment where we -- our vertical integration gives more synergies on our platform. Now ultimately, I think what matters for folks, especially if they're going to continue to be advisers on our platform, it's more about our capabilities, right, which I think we also have an advantage in.

But we focus in especially on our traditional markets, which I think is the example that you gave where most of those folks are not self-clearing. I think we've got an advantage from a price standpoint. We've got an advantage from a value proposition standpoint. That doesn't mean all the folks on the other side are going to make smart decisions because M&A is always tough to predict. There's lots of different things at play.

But I think those 2 dynamics are really probably the core reasons that our view on over the long term is really constructive that consolidation will happen in our space, and then we'll be a big beneficiary of that. Christian?

Christian Bolu - *Autonomous Research - MD and Senior Analyst of US Capital Markets*

Two questions from me. First one, I'm just wondering, is there an opportunity to do a more strategic partnership with a bank similar to what, I think, Ameritrade and TD Bank did? You do have a very valuable deposit base. Your needs for lending are increasing. And I probably believe you want more stable spread revenues to reduce earnings cyclicality from interest rates. So just wondered what the pros and cons of doing something deeper, more strategic with the bank rather than trying to poke deposits every quarter to bank that wants it.

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

Well, I mean, I don't think either party that you mentioned was very happy with that relationship. So I don't think it's something you necessarily replicated in the market. I think from a lending standpoint, it's not a balance for us. It's not a balance sheet need or question, right?

As you heard, Kabir, say, it's about integrating the capabilities in the offering to really have us be able to compete for that $27 trillion market, right? Having it on our balance sheet is not really the core part of the capability.

So I think then you get to what's the best way to monetize our cash sweep balances, and I think the demand in the marketplace continues to be strong. Each dollar that comes off of the Fed's balance sheet is coming off of their balance sheet, right, wherever it was $9 trillion or more, and that's starting to come down. So I think the demand for deposits like ours at these institutions is going to continue to increase.

And then you add that or couple of that are our CCA account, right. To the extent you get into an environment, where you can't place them with third-party banks. We can put it on our own balance sheet in a capital-light way.

So I think when we look at that overall offering. I think the way that we're proceeding -- or executing against that is by far the best way, and we wouldn't have a need for a partnership. The world changes and the dynamics change, I think then we would look at that. But I don't think that's what we think we need at all today.

Christian Bolu - *Autonomous Research - MD and Senior Analyst of US Capital Markets*

Okay. And then a question I ask Rich around TA. Are you paying more for TA? If you are, is that a function of just better economics with higher rates or competitive pressures? And remind us like sort of the payback math in the economics, how much you pay and then how long it takes to get that back?

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

Yes. I think when you're deploying capital for organic growth in the recruiting area, broadly, you look at deploying it at 2 to 3x EBITDA, right? And our underwriting to return to those levels of returns haven't changed. I think you were referring to a program that we ran. We run lots of different programs, and then the super awesome media picks up one particular one, talks a lot about it, right, which is a very small piece of our overall offering.

The headline I would give you is, what matters most is the value proposition, right? Or the ways that we can serve and support advisers that matters to them across the host of our affiliation models. Of course, TA matters in support of that, and we continue to underwrite to the same returns and the same compelling capital that we have.

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

Sorry you didn't have a microphone. So rates -- so interest rate...

Christian Bolu - *Autonomous Research - MD and Senior Analyst of US Capital Markets*

Making more of those assets with higher rates. Does that affect in any way what you offer?

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

Absolutely. So if we're underwriting to returns and the returns of that business are higher right, then TA can be higher. Absolutely. Devin? And if this is a 2 parter, it's going to be the last question. So look around your friends, one question.

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

This is a 1 parter. So we'll be quick here. Devin Ryan, JMP. So you talked about the opportunity to accelerate growth investments that are going to flow through the expense base, which we get. What about the opportunity to take some of that tailwind and invest in better pricing. You guys do that, I think, every year. But just are there areas where there might be opportunity for either better advisor payout or other areas that are going to accelerate organic growth?

And on the other side, to separate yourselves even further from some of these subscale firms and firms that are not growing, is there actually room to increase pricing either to advisers or some of the partners because they're just adding so much more value into their ecosystem?

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

Yes. I mean I think pricing is absolutely something that we look at, especially in this environment. And I think if you've -- what you've seen us do in the past, I think, is a good indicator of where we focus. And it's about -- less about core payouts and more about incremental services. Our Centrally Managed Platforms, I think, is a great example.

We can make sure that we find that right balance between incremental cost for them to use that offering and the capacity that frees up for them to just focus on their business and grow. And you've seen each time we've been able to adjust that dynamic and bring that pricing. You've seen the uptake in that service us. So those will be the types of things that we would look at, and I think on the opposite for things that increase in pricing standpoint.

I think that the Services Group probably is a good example there, where you see pricing change where you've got people delivering those services, depending on that value prop. So I think broadly, that is definitely something that we look at, and I think what we've done historically is probably a good guide to where we would focus.

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

Is there anything with asset manager partners or kind of third parties that are getting access to this much bigger business today?

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

Yes. I think the value of our scale of distribution is certainly part of what drives our returns, right? So I think it just depends on each individual partner. Our no-transaction-fee platforms, I think, are a great example, where sponsors are helping support us being able to offer that in a way that there's no fees to clients, right? So I think that's a good example of the value distribution comes into play.

All right. Last question. Alex?

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

I'll sneak one in quickly. So for the last couple of years, you guys talked about moving up the value chain and offering new services to financial advisers, which, in theory, should increase gross profit ROA for the firm as a whole. And understanding there's a mix dynamic and there is a cyclical rate dynamic. So if you keep rates aside and if you want us to kind of walk away with something about profitability of the asset base and how LPL is going to evolve over the next couple of years. What are your thoughts on gross profit ROA for the next few years?

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

Yes. And I think it's back to what I talked about in the prepared remarks. I think the more services that we offer, right, the size went from Brokerage all the way up to the Services Group. The more services that we can offer along that trend and the better that we can deliver them, and we find the right price that balances the advisor uptake of those services versus the benefits that we get, I think that is an algorithm that leads to our returns improving. And I think that is why when you think about our investments and the things that the team talked about today, they're along that spectrum. So that's where I end up focusing.

All right. All right. So with that, just a few closing remarks. First, just to thank you. Thank you to all of you for coming here today. We get super excited to talk about our strategy. I'm glad you came here and were able to listen, both in-person and on the webcast, and really hope it was a great use of your time.

Second is just a thank you to my teammates. So they don't do this every day and come up and talk to all of you about our business. Unfortunately, you have to hear me drone on about it all the time. So I know they really appreciate hearing from you, not only just because you weren't me, but also because of hearing the folks that are actually driving and running these businesses, and this strategy and the passion that they have for it. So thank you so much for that.

And then lastly, I just wanted to leave you with maybe a little bit of context on really the mindset or the environment or the atmosphere within LPL. And if we go back to where I started the day, and you just look back at the results that we delivered as a firm, right, over the last 5 years by doubling our assets, tripling our organic growth rate, tripling our EPS and the resulting shareholder value that came from that, right? It's something that we are incredibly proud of as a team. Not only were we able to do that by supporting our advisers by delivering those results, but it was also incredibly hard work.

And when you look ahead to executing the strategy that we laid out for you today, right? We remain equally excited about being able to deliver these results, but we know it's going to be just as much, if not more, work.

So I thought if I could just summarize in a simple, crisp and clear way, right, the mindset of that team and really the LPL team overall, it would be this. We're just getting started. Thank you.
