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LPLA.OQ - Q2 2025 LPL Financial Holdings Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good afternoon and thank you for joining the second quarter 2025 earnings conference call for LPL Financial Holdings Inc. Joining the call today are our Chief Executive Officer, Rich Steinmeier; and President and Chief Financial Officer, Matt Audette. Rich and Matt will offer introductory remarks, and then the call will be opened for questions. (Operator Instructions)

The company has posted its earnings press release and supplementary information on the Investor Relations section of the company's website, investor.lpl.com. Today's call will include forward-looking statements, including statements about LPL Financial's future financial and operating results, outlook, business strategies, and plans as well as other opportunities and potential risks that management foresees. Such forward-looking statements reflect management's current estimates or beliefs and are subject to known and unknown risks and uncertainties that may cause actual results or the timing of events to differ materially from those expressed or implied in such forward-looking statements.

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

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

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

Thanks, operator, and thank you to everyone for joining our call. It's a pleasure to speak with you again. After an outstanding start to the year, we delivered another quarter of strong business performance and excellent financial results, while continuing to advance key initiatives.

We entered the second quarter against a backdrop of elevated macroeconomic uncertainty and market weakness. While markets rebounded sharply as the quarter progressed, questions remain regarding the resiliency of the equity markets. In this rapidly evolving operating environment, our advisors continued to serve as a steady hand, helping to guide their clients and reinforcing our commitment to support them.

Okay. Now let's turn to our Q2 results. In the quarter, total assets increased to a record \$1.9 trillion. A solid organic growth was complemented by higher equity markets. We attracted organic net new assets of \$21 billion, representing a 5% annualized growth rate. Our second quarter business results led to strong financial performance with adjusted EPS of \$4.51, an increase of 16% from a year ago.

Next, let's turn to our strategic plan and progress across our organic and inorganic initiatives. Our vision is clear: We aspire to be the best firm in wealth management. To do that, we are focused on three key priorities. One, pursuing novel and differentiated strategies that enable the firm's sustained success; two, creating an extraordinary employee experience, so employees in turn deliver an unparalleled client experience; and three, leading the firm with operational excellence through increased intentionality and rigor.

Effectively executing on these focus areas will help us sustain our industry-leading growth, while delivering improved operating leverage. With that as context, let's review a few highlights of our business growth. In the second quarter, Recruited Assets were \$18 billion, bringing our total for the trailing 12 months to \$161 billion.

In our traditional independent market, we added approximately \$15 billion in assets during Q2, where despite a broader slowdown of industry-wide advisor movement, we maintained our industry-leading capture rates of advisors in motion, while also expanding the breadth and depth of our pipeline.

With respect to our expanded affiliation models, Strategic Wealth, Independent Employee, and our enhanced RIA offering, we delivered another solid quarter, recruiting roughly \$3 billion in assets. And as we look ahead, we expect that the increasing awareness of these models in the marketplace and the ongoing enhancements to our capabilities will drive sustainable growth.

Next, we added approximately \$1 billion of assets in the traditional bank and credit union market. We also continue to make progress with large institutions, where we announced that First Horizon would transition its wealth management business to our Institution Services platform. As a reminder, First Horizon supports approximately 120 financial advisors, managing roughly \$17 billion in client assets, which we expect to onboard later in Q3.

Turning to overall asset retention, it remains industry-leading at 98% for the second quarter and over the last 12 months. This is a testament to our continued efforts to enhance the advisor experience through the delivery of new capabilities and technology and the evolution of our service and operations functions.

As a complement to our organic growth, in July, we completed the conversion of Atria Wealth Solutions. This is no small feat when you consider that Atria had seven distinct broker-dealers that used multiple custodians. This is a testament to our experienced team and the diligent investments we've made in recent years, and it highlights our differentiated transition capabilities relative to the rest of the industry.

As for retention, we're still finalizing results, but anticipate asset retention landing at approximately 82%, ahead of our initial target of 80%. Now, as for our pending acquisition of Commonwealth Financial Network, our leadership team has had the pleasure of spending focused time with Commonwealth advisors and leadership over the last four months. This has been time well spent, helping to foster increasingly constructive conversations.

Today we have a better understanding of what's important to them, preserving and fostering the Commonwealth community and culture. Plus, we've had the opportunity to showcase the resources and capabilities at LPL. The combination creates a firm with the scale, the experience, and the permanent capital needed to serve and support their growth for decades to come.

As a result, we've made steady progress with advisor commitments and remain on track to achieve our retention target. We expect to close the transaction tomorrow morning and are excited to hit the ground running as we prepare to onboard this community of advisors. To summarize,

we are pleased with the second quarter results, and we feel great about our position as a critical partner to our advisors and institutions while we continue to create long-term value for our shareholders. With that, I'll turn the call over to Matt.

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

Thanks, Rich. I'm glad to speak with everyone on today's call. To Rich's point, it's been an active quarter, with the team delivering tremendous results at a rapid pace. To reiterate some of those highlights, we delivered another quarter of industry-leading organic growth, launched our first-ever national marketing campaign, continued to make progress in the institutional channel as we prepare to onboard First Horizon, successfully onboarded Atria and completed all pre-close work for the acquisition of Commonwealth. Our disciplined execution continues to translate into strong business and financial results, with our cost-efficiency work, pulling through to sustainable improvements in our margins.

Now turning to a few highlights from our Q2 business results. Total advisory and brokerage assets were \$1.9 trillion, up 7% from Q1 as continued organic growth was complemented by higher equity markets. Total organic net new assets were \$21 billion, an approximately 5% annualized growth rate, a strong result both on an absolute and relative basis. On the recruiting front, Q2 recruited assets were \$18 billion, contributing to \$161 billion over the trailing 12 months.

With respect to large onboardings, during the quarter, we successfully completed the conversion of Atria's seven broker-dealers, continued to prepare for First Horizon, which we expect to onboard in Q3, and we're progressing towards closing Commonwealth as planned.

As Rich mentioned, we expect to close the transaction tomorrow and convert Commonwealth's assets to our platform in the fourth quarter of 2026, which has moved out slightly from our original timeframe as we've begun to scope the tech and operational work required to ensure advisors have an exceptional experience.

At close, we continue to expect run-rate EBITDA to be roughly \$120 million, and approximately \$415 million once fully integrated, which is underpinned by our 90% retention target. With that as context and given the timing of the close, we'll include Commonwealth in our guidance items today. I would just note, given we have not yet closed the deal, there could be some variability in the line-item geography.

Looking at Q2 financial results, the combination of organic growth and expense discipline led to an adjusted pre-tax margin of approximately 38%, and adjusted EPS of \$4.51. Gross profit was \$1.304 billion, up \$32 million sequentially.

As for the key drivers, commission and advisory fees, net of payout, was \$349 million, down \$14 million from Q1. Our payout rate was 87.3%, up approximately 60 basis points from Q1, largely due to the typical seasonality.

Looking ahead to Q3, we anticipate our payout rate will increase to approximately 87.6%, driven by the typical seasonal build and the production bonus, as well as our acquisition of Commonwealth. With respect to client cash revenue, it was \$414 million, up \$5 million from Q1. Overall client cash balances ended the quarter at \$51 billion, down \$2 billion sequentially, primarily driven by continued elevated levels of net buying activity. Within our ICA portfolio, the mix of fixed-rate balances ended the quarter at roughly 65%, slightly above the midpoint of our target range of 50% to 75%.

Looking more closely at our ICA yield, it was 342 basis points in Q2, up 5 basis points from Q1 as higher renewal rates on our fixed-rate contracts offset lower average cash balances. As we look ahead to Q3, based on where client cash balances and interest rates are today, as well as the Commonwealth-related cash, we expect our ICA yield to be roughly flat sequentially.

As for service and fee revenue, it was \$152 million in Q2, up \$7 million from Q1, primarily driven by strong organic growth. Looking ahead to Q3, we expect service and fee revenue to increase by approximately \$20 million sequentially, driven by revenues from our annual Focus Conference, as well as our pending acquisition of Commonwealth.

Moving on to Q2 transaction revenue, it was \$61 million, down \$7 million sequentially due to lower trading volumes. As we look ahead to Q3, we expect transaction revenue to increase by approximately \$5 million sequentially, primarily driven by Commonwealth.

Now let's turn to expenses, starting with Core G&A. It was \$426 million in Q2, below our outlook range for the quarter, as we continue to make progress on our renewed focus on driving operating leverage in the business.

For the full year 2025, given our cost initiatives are tracking ahead of schedule, we are lowering our 2025 outlook to a range of \$1.720 billion to \$1.750 billion, which includes \$170 million to \$180 million of expense related to Prudential and Atria.

Additionally, given the expected close of Commonwealth tomorrow, we've factored these expenses into our overall Core G&A outlook and expect an incremental \$160 million to \$170 million. As a result, our new Core G&A outlook range is \$1.880 billion to \$1.920 billion. To give you a sense of the near-term timing of the spend, in Q3, we expect Core G&A to be in a range of \$495 million to \$510 million, including Commonwealth.

Moving on to Q2 promotional expense, it was \$164 million, up \$12 million from Q1, primarily driven by conference spend and transition assistance resulting from our strong recruiting. Looking ahead to Q3, we expect promotional expense to increase by approximately \$35 million, driven by conference spend, as we will host our Annual Focus Conference next month, as well as transition assistance related to Commonwealth.

Turning to depreciation and amortization, it was \$96 million in Q2, up \$4 million sequentially. Looking ahead to Q3, we expect depreciation and amortization to increase by roughly \$5 million. As for interest expense, it was \$102 million in Q2, up \$22 million sequentially, driven by our April debt issuances. Looking ahead to Q3, given our revolver balances following the close of the Commonwealth transaction, we expect interest expense to increase by approximately \$5 million from Q2. Moving on to our tax rate, it was approximately 26% in Q2. Looking ahead, we expect Q3 to be around 27% as we anticipate recording a reserve on a couple of tax items.

Turning to capital management, as a reminder, we funded Commonwealth through a combination of corporate cash, debt, and equity. We ended Q2 with corporate cash at \$3.6 billion, up \$3 billion from Q1, which included proceeds from our capital raises.

Following the close, we expect corporate cash to come back down closer to our management target range of roughly \$200 million, and as such, we expect Q3 interest income to be approximately \$40 million. As for our leverage ratio, it was 1.23x at the end of Q2. In line with the plans we shared previously, we expect our leverage ratio to be approximately 2.25x following the close, with a path to deleverage to approximately 2x by the end of 2026.

Moving on to capital deployment, our framework remains focused on allocating capital aligned with the returns we generate, investing in organic growth first and foremost, pursuing M&A where appropriate, and returning excess capital to shareholders.

In Q2, the majority of our capital deployment was focused on supporting organic growth and M&A, where we continued to allocate capital to our Liquidity & Succession solution. To uphold our commitment to maintaining a strong and flexible capital position, we paused share repurchases, which we will revisit once we onboard Commonwealth.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Alex Blostein, Goldman Sachs.

Alexander Blostein - *Goldman Sachs Group Inc - Analyst*

I was hoping we could start with a question around Commonwealth. Obviously, it's a big focus for investors. Congrats on the deal, I guess, closing here tomorrow. But maybe to just start with how the conversations with the team are evolving. You guys are clearly sticking with a 90% retention expectation. So a little bit of color on what gives you confidence in being able to achieve that.

And then financially, Matt, I was hoping you maybe could hit on reasons behind keeping EBITDA run rate at \$120 million to start off despite the fact that the asset levels are a decent amount higher from the time you announced the deal?

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

Thanks, Alex. This is Rich. I'll start out and then hand that second part over to Matt. So on Commonwealth, I think we've had four months of fever-pitched engagement with them where we have gotten to know the advisors, the leadership team, and more broadly the employees better and better. And what we thought before we got into this partnership has been completely reinforced, which is that the Commonwealth team has built something truly special.

They set the mark for what it means to serve independent advisors. Hopefully you've seen just a few weeks ago, Commonwealth received their 12th consecutive number one ranking from JD Power for Independent Advisor Satisfaction. And as we've stated continually, we are committed to preserving that unique culture, the advisory experience, the brand, and in fact, we will only enhance what they already receive with the combination of the LPL capabilities with that Commonwealth experience.

Beyond that, we'll actually transfer so much of those learnings of that exceptional delivery of the client experience, reception of advisor feedback, ingestion of that disposition and changing capabilities to the broader LPL base. We feel really great about that moving over there as well.

As we've gotten closer to the close of the transaction, which we announced is tomorrow, we anticipate tomorrow, and we've also begun the cross-pollination of our cultures. We've connected with advisors, employees, leadership, better understand the secret sauce behind their success.

Just recently, 27 Commonwealth employees attended the LPL Summer Bash at our Fort Mill campus. We sent emissaries from LPL up to Commonwealth's Annual Wing Eating Contest and Cornhole Tournament. In just over a week, we'll have 70 Commonwealth advisors and home office staff scheduled to join our Annual Focus Conference.

And as of tomorrow, I'm really excited to announce that Commonwealth CEO Wayne Bloom will join the LPL Management Committee upon the close of the transaction. As for the transaction itself, I feel like we're progressing things according to plan. From an operational standpoint, the teams have been working closely to complete the pre-closing work, and we're on track to close that deal tomorrow.

With respect to integration planning, we're early in the journey. But we've scoped the work to ensure we're preserving the experience for Commonwealth advisors on the other side of the conversion. And we expect that to take place Q4 of next year.

With respect to the advisor retention, Alex, which you asked specifically about, at this stage, I feel good. We've engaged with so many advisors, and for those Commonwealth advisors who are prioritizing the Commonwealth experience, their community, the technology, service, ongoing economics, and really staying at their forever home for their business and their clients, staying with Commonwealth is their only option. But like, as with any transaction or competitive recruiting events, some advisors will prioritize differently. And that exact dynamic is contemplated in our retention target.

So in the end, we continue to feel confident about our ability to capture 90%, which does mean we understand that 10% of the advisors will make a different choice and go somewhere else. All that being said, there's nothing that's been surprising in terms of competitive response or advisor decisioning. Maybe it's been a little bit noisier in the trades than we had expected, but that's of little consequence.

So to summarize, we remain extremely excited about the partnership, and the deal is progressing according to plan. I'll turn it to Matt.

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

Yeah. So on the run rate EBITDA, AUM is definitely up, but cash balances are down a little bit. So they kind of roughly offset. So the mix of that run rate EBITDA, you could say it improved a little bit, but that's the reason it hasn't changed.

Operator

Steven Chubak, Wolf Research.

Steven Chubak - Wolfe Research LLC - Equity Analyst

Hi, good afternoon, Rich and Matt. Thanks for taking my question. Matt, a question on the expense optimization. And specifically, the updated guidance for core G&A growth of 5% ex deals certainly suggest that your efforts to bend the cost curve are clearly bearing fruit.

Given you continue to surprise positively versus the original guidance, I was hoping you could speak to whether you see room to drive further efficiency gains from here as we think about the longer-term expense journey? And do you see 5% or better G&A growth as a sustainable long-term target given some of those efficiency efforts?

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

Yes, Steven, I mean, I think the broad point just to underscore what I said in the prepared remarks here is I think we've got really good momentum on the efficiency work. And I think the thing that is really exciting, and I think the thing that has this team collectively working hard together on it is its efficiencies that not only drive operating margin, but they are driving improvement in the client experience.

And maybe just take the obvious, it's easy for everyone to get really motivated and really focused around that. So things are moving faster than we expected. We're just -- there are things like just automating manual processes in our operations group. There are things where it's reducing friction with advisors. So it's improving that experience as well as reducing our need to answer calls related to those things.

And to get to your specific part of your question, I think this is not a one-year thing. I think we have got a long runway here to continue to drive efficiencies before we even get to really starting to deploy the newer technologies that are coming out.

So I think we'll have to see each year from a guidance standpoint, what that looks like. But I think from a broad strategic standpoint, I think we have many, many years where we can drive improvements here, not only to op leverage but also to the experience that we're able to deliver which dovetails back to this being just the best place for advisors to be and ultimately can be a catalyst for driving organic growth as well.

Operator

Craig Siegenthaler, Bank of America.

Craig Siegenthaler - Bofa Merrill Lynch Asset Holdings Inc - Analyst

Thank you. Good afternoon, everyone. I had a question on net new assets in the independent RIA channel. What drove the modest outflows this quarter? And can you provide us an update on the long-term growth trajectory in this channel?

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

Craig, can you repeat that middle part about the modest? I didn't hear the middle part of that.

Craig Siegenthaler - Bofa Merrill Lynch Asset Holdings Inc - Analyst

The independent RIA channel, I think, had modest negative net new assets this past quarter. I had a question on what drove that? And then maybe you could just refresh us on the long-term growth trajectory in this channel.

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

Yes, Craig, there's nothing I would highlight there. I think when you look at those -- the growth there, I mean, you can see quarter after quarter after quarter, the growth is really in the corporate channel. We do have a little bit of the misaligned OSJs that we've talked about the last couple of quarters that would impact. But there's nothing that I would highlight in particular in the quarter. You can see on these charts that it's the corporate RIA NNA that really is a huge driver of that area. Rich, anything you want to add more on the strategy in the area?

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

Yeah. I think the thing I would say is that we continue to strengthen our offering, Craig, in supporting RIAs. One of the questions, I think, that you'll see arise is you've seen less flows to the RIA segment. We see more flowing into our corporate RIA. Mostly, that has to do with ambiguity around the current regulatory environment.

I think the SEC is currently evaluating whether or not they're going to raise the threshold for SEC level registration of an RIA versus state registration. And so when you see that potentially moving from \$100 million up to \$1 billion threshold, I think you're going to see more folks that are pausing and actually flowing into our corporate shared ADV model.

So I think you got to look at those things in tandem to take a look at where do you see overall flows moving into the firm. And there will be times when you'll see flows move into our corporate RIA versus independent RIAs. And I would say this is maybe that moment in time where you're seeing a little slowdown of the movement into independent RIAs because of the ambiguity in the regulatory environment. That probably contributes to some of those outcomes.

Operator

Devin Ryan, Citizens.

Devin Ryan - Citizens JMP Securities LLC - Analyst

Another one here on Commonwealth. So first off, great to confirm the retention target there, and congrats on closing that here tomorrow. Several industry newswires in recent weeks have talked about how some of these Commonwealth advisors are setting up their own RIAs or looking into doing the same thing? And maybe that's actually connected to the last answer you made.

But Rich, would love to get some thoughts on what this means for LPL in the context of the deal? Do you lose those advisors? Are they in that 10%? Or is there an opportunity to continue to work with them. And so just trying to think about kind of the implications of this more broadly.

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

So I think you have seen a little bit more of conversations about options for the advisors. And look, this is the time of enhanced due diligence for Commonwealth advisors. You have to keep in mind, those advisors were likely not doing diligence before the announcement of the sale of Commonwealth. And so as they've gone through their evaluation process, which we've been really supportive of, they've explored all kinds of different options.

One of those options would be forming their own RIA. And it shouldn't be too surprising given the makeup of the Commonwealth advisors, where they skew more towards advisory. And many of them were moving down the pathway to already dropping their licenses.

Keep in mind, as you go through that evaluation on your own, you can either drop your own licenses to become an IFA inside of a shared ADV model, but you can go set up your own RIA. What you're referring to, Devin, is that kind of conversations and thought about setting up their own RIAs.

Usually, it's under this premise of there will be better economics, enhanced autonomy by setting up your own RIA. And I would say, as we've begun doing one-on-one conversations, webinars, et cetera, what we've begun to help them realize and many have realized is, you may have underestimated the operational lift and the regulatory complexity that comes with running your own RIA.

As an RIA, they're responsible for their own regulatory compliance and risk management, in addition to running the responsibilities of the small business like tech and HR. And I just alluded to in the previous answer, one of the things that I think is adding ambiguity into whether you set up your own RIA or move under a shared ADV model, is that ambiguity in the regulatory environment relative to the threshold for SEC regulation, which is quite a bit easier to work with one regulatory body than working with multiple states if you even serve a de minimis number of clients inside the state, you have to register with that state itself.

And so that's a lot of what you see as advisors weighing those options about does it make sense to do that on my own. Now specifically to your question, we support independent RIAs. We also support advisors who dropped their licenses -- the FINRA licenses, on our shared ADV corporate RIA. And as we've gotten deeper and deeper into these conversations, what the advisors have realized is to keep the Commonwealth experience community culture, service environment, brand, et cetera, that they've come to love, they can still do that either inside of an RIA construct with LPL or if they want to be an IFA inside of that shared ADV model with LPL as well.

So when you hear the evaluation of setting up your own RIA, it doesn't mean that they're going to move. Now, one of the things I think they've also considered is, if they choose to set up their own RIA with another custodian, they're going to have to go through a repapering event. It means they're going to have to engage their clients, they're going to have to repaper all of their accounts. And they're going to find some lost efficiency and spending some time actually working through that transition, whereas with us, they're not going to have to go through that event as well.

So there's a lot for them to consider and weigh. But what on balance we've seen, Devin, is that advisors are seeing that we can support them, they keep their community, they keep their support model, they keep that leadership team that they love. They can do that inside of an RIA or on our shared ADV at LPL. And I think on balance, what we're seeing is we're having very productive conversations there.

Again, I would tell you even at 90%, what you are going to see is announcements of folks that are going to leave. But on balance, we think that center of gravity sits around 10% in spite of the fact that really it seems like each and every one of those stories is being amplified by the trades.

Operator

Dan Fannon, Jefferies.

Daniel Fannon - *Jefferies LLC - Equity Analyst*

Wanted to just talk about the recruiting backdrop and your outlook for NNA here as you think about the second half of the year. And maybe also just throw in advisor movement more broadly for the industry and how that compares maybe what you thought earlier in the year to where we sit today.

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

Yeah. Thanks, Dan. Look, I think you probably keyed into one of the things that we're seeing as well is that with the macroeconomic uncertainty that exhibited itself in the second quarter, we saw a truncation of some of the advisor movement. And so historically, we think of that advisor churn movement sitting around 5.5% to 6%.

It has been truncated over the first half of this year. We see the center of gravity sitting around 5%. And so you see a reduction in the overall movement. A lot of times when advisors are faced with enhanced volatility in the markets, they're going to usually defer a move. The reason they don't want to be out of the market for their clients.

And so that doesn't mean you're going to see overall movement down over the long term. You'll just see a pushing out until we get to a more stable environment. I think we still sit with slightly elevated ambiguity as to what the macro looks like as we still sit on the tailwind, on the back end of some of that uncertainty around tariffs, et cetera.

And so we still see, into the beginnings of this quarter, a more truncated movement environment. But I would highlight that inside of that, we still have industry-leading win rates of the advisors in motion. And for us, I'm really proud of the results we had in the quarter because we recruited \$18 billion in Q2 worth of assets. But in addition to that, we have deployed a subset of our recruiting team against retaining the 3,000 Commonwealth advisors. And as I mentioned, that's progressing pretty well.

So you take that together. And we feel really good about the results that we've had when you put both of those together, which says that the effectiveness of our -- certainly of our business development team has been really high.

We have heard the commentary from some of the competitors talking about changes in the transition assistance and more competitive TA environments. And we're really attuned to that. We recruit more advisors than any other firm in the marketplace. And so we're in more conversations than anyone else.

We're aware of the movement in TA. And I would reiterate that TA for us is not the driver of the selection of advisors as to what firm they choose to join. The number one thing that they look for are capabilities, technology, service, the value exchange that comes with the firm.

And then second to that are the ongoing economics on both of those we feel were without peer in the industry. And third, in that evaluation of changing firms is the TA rate, which we have seen become more competitive during the course of the first half of the year. So we remain confident that the ongoing appeal of our model positions us well to maintain our industry-leading capture of advisors in motion.

Operator

Benjamin Budish, Barclays.

Benjamin Budish - *Barclays Services Corp - Analyst*

Hi, good evening and thank you for taking my question. I was wondering if you could kind of comment at a high level about your overall gross profit ROA. It's been declining for a few years now, and I'm sure some of that is mix. Some of that is as you onboard larger enterprises kind of move upmarket with larger financial institutions.

Just curious, how do you think about how the next couple of years should look, especially ex cash. How much of this is sort of due to that kind of rapid growth, M&A? How much of this trend can be booked? How should we think about that sort of medium-term outlook for that KPI?

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

Yeah, you bet. I mean I think broadly that as we've grown and as our revenue is diversified, that's not necessarily the best metric to look at, especially in a market where AUM is rising at a rapid, pace, and not all of our gross profit is AUM driven.

So I think that's a little bit to your point on seeing gross profit ROA decline. You see that being driven by cash balances. You see that happening in line-items like service and fees, where -- those are fees that are primarily driven by advisor levels and account levels, not AUM levels.

When you start to look at the line-items that are AUM-driven like advisory fees. Commissions is a little bit more transactional. I think you can see a lot more there. So a long way of saying, I think the decline there, I think, is more driven by, not every metric, or item in that metric is driven by basis points on AUM.

As we take a step back and look at where and how we're driving revenue, I think we feel very good about our gross profit growth overall, especially when you couple that with the efficiency measures, and you start to look at EBITDA ROA and how that's grew for the first time this quarter in quite some time when you couple those two things together. So overall, I think we feel really good. I think you just get a little bit of noise in that metric because not everything is really AUM driven.

Operator

Michael Cyprys, Morgan Stanley.

Michael Cyprys - Morgan Stanley - Analyst

Hey, good afternoon. Thanks for the question. I just wanted to ask about capital allocation with the deal closing tomorrow. Just how are you thinking about that in the quarters ahead? And then related to that, on Liquidity & Succession, I was hoping you could update us on the progress there. How that's contributing to results? And how you anticipate the pace of deals and capital allocation to that going forward from here?

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

Yeah, Michael. I think when you look at capital allocation, I think I'd just reiterate, we've talked about a bit on the -- once we file the close of Commonwealth, keeping our plans and intentions about our leverage ratio are key for us, right?

So we expect to be at a leverage ratio of 2.25x post-close. We have a plan to deleverage down to the midpoint of our range at 2x by the end of 2026 as we integrate. So I think that that is going to really guide our capital allocation, perhaps specific -- not overtly asked in your question, but specific to share repurchases, I think we'll reassess those once we've gotten back down to that leverage issue.

Within that though, I think we can continue to drive and allocate capital to organic growth, which typically is our capability development and technology, as well as the TA behind recruiting. And on the M&A front, which is the second part of your question in L&S, I think that continues to go quite well.

We've ended up putting about 10 deals the last couple of quarters in a row. Those are relatively small from a capital standpoint, in the \$10 million to \$20 million range each, but they drive a lot of good earnings generation for us. But I think more importantly, there's just a great capability to help advisors transition their practices to the next generation.

So overall, it continues to go well. The pace has picked up to about 10 per quarter and it's a good use of our capital that continues to be in our plans while still landing our leverage ratio or deleveraging them to 2x.

Operator

Jeff Schmitt, William Blair.

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

Hi, good evening. So for Commonwealth, you're adding \$160 million or \$170 million of core G&A for the deal. And that's around 5 or 6 basis points of AUM versus I think LPL is running at 9 basis points. I guess, one, is that the right way to look at it? And two, what would be driving that efficiency difference if so?

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

Yeah, Jeff. I mean, I think that I wouldn't get too focused on the initial EBITDA and the initial expense guidance because remember, that is the existing Commonwealth business. We haven't integrated that, which we will through the end of 2026.

So I think really, when we -- as we start to do that work and as we start to get to the run rate EBITDA of \$415 million, I think broadly, you're going to see a business that, from a gross profit standpoint, is similar to our business and from a margin standpoint is going to be in the same tone. So I won't get too hung up on the initial run rate numbers.

Operator

Kyle Voigt, KBW.

Kyle Voigt - *Keefe Bruyette & Woods Inc - Analyst*

Hi, good evening, everyone. Thanks for my question. So it's been a volatile quarter for sweep cash. Obviously, there was a focus on the level of decline in the May cash number. So it's good to see the rebound in June.

Just wondering if you could hit on some of the bigger factors that drove the volatility in cash in the quarter, particularly over the past two months. And it would be great to hear if there's been any change in yield-seeking behavior or whether it's been driven by different factors. And then, Matt, maybe you could also update us on July sweep cash as well.

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

Yeah, you bet. I mean, I think when you look at the quarter, it really is just driven by two factors. One, in April, which is the primary driver of the decline, it's your typical seasonal items, the advisory fees coming out and tax payments. And as you noted, as you got deeper into the quarter we saw some growth in June growing by \$1.4 billion.

So I think overall, it's kind of an expected trend that you would see in the balances. But the primary driver, about two-thirds of that, if you look at the cash as a percent of AUM coming down, it's just the denominator of growing, right? We've got a strong equity market.

If you look at our AUM overall, it's growing almost \$100 billion on average for the last several quarters in a row. So you just have the denominator growing. Cash balances themselves have been pretty stable around \$5,000 per account for quite some time, several quarters in a row. So I think it's -- maybe to hit home the point, that percent decline is really just driven by tax payments as well as the denominator growing.

Now bridging into what we've seen so far in July, sitting here almost at the end of the month. Again, first month of a quarter, it's as expected with that seasonality, and specifically, advisory fees hitting in that first month of the quarter.

For July, that's around \$1.8 billion of a decline. Outside of that, cash balances were flat other than fees. And then just to add on to that from an organic growth standpoint, very similar driver there. Advisory fees reducing that in the first month of the quarter. And then to Rich's point earlier, that slowdown in industry-wide advisor movement on the recruiting side, you'll see that carry over into NNA into the third quarter. We're seeing that in July.

If you put that together, we expect organic growth in July to be in the 4% zone, which for month one of a quarter, I think is what you would expect. And I'd just highlight that is prior to any additional attrition that we'll have from the misaligned OSJs that are leaving.

And just a reminder there that was an overall \$20 billion that we expected to depart. \$13 billion has already departed through Q2. So there's \$7 billion more to go. And that's primarily direct business at this point, which is a little harder to see and predict when that's going to leave, which is why I didn't include it in the estimate. But again, no changes in the expected total there of \$20 billion. Hope that helps.

Operator

Bill Katz, TD Cowen.

Bill Katz - Cowen and Company LLC - Analyst

Just maybe a couple of embedded questions. Inside of the AUM for Commonwealth, just wondering if you could update us on the split between cash and the rest of the business. And then secondly, the broader question, just on the Liquidity & Succession, what we continue to hear is that private equity firms continue to be quite aggressive in terms of scaling wealth management platforms. I'm wondering, is that having any impact on the deal multiple in terms as you deploy that capital, whether it be internally or externally? Thank you.

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

Yes, Bill, I can take both of those. The cash as a percent of AUM at Commonwealth is a little bit below ours, call it, 1.5%-2% zone. So a little bit smaller balances there than we have. On the L&S side, I mean the short answer is, no.

I mean I think when you look at the multiples that we're paying, they have been consistent. I think the value prop that we have for a host of reasons, including staying at LPL, staying on our systems, the overall support that the team brings when they go into that model, I mean, I could go on and on and on.

I think the price has not changed. The value prop is really what's driving that. And anything that from a private equity standpoint or the things that you had referenced has really not changed the multiples that we're paying at all.

Operator

Thank you. At this time, I would now like to turn the conference back over to Rich Steinmeier for closing remarks.

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

Thank you all for joining us. We look forward to speaking with you all again in October. Have a good night and go chase down the rest of those MLB trade deadline rumors.

Operator

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

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