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LPLA.OQ - Q4 2022 LPL Financial Holdings Inc Earnings Call

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OVERVIEW:

LPLA reported 4Q22 gross profit of $972m and $4.21 of EPS prior to intangibles and acquisition costs.

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PRESENTATION

Operator

Good afternoon, and thank you for joining the Fourth Quarter 2022 Earnings Conference Call for LPL Financial Holdings Inc. Joining the call today are our President and Chief Executive Officer, Dan Arnold; and Chief Financial Officer, Matt Audette. Dan and Matt will offer introductory remarks, and then the call will be open for questions. (Operator Instructions) The company has posted its earnings press release and supplementary information on the Investor Relations section of the company's website, investor.lpl.com.

Today's call will include forward-looking statements, including statements about LPL Financial's future financial and operating results, outlook, business strategy and plans as well as other opportunities and potential risks that management foresees. Such forward-looking statements reflect management's current estimates or beliefs and are subject to known and unknown risks and uncertainties that may cause actual results or the timing of events to differ materially from those expressed or implied in such forward-looking statements. For more information about such risks and uncertainties, the company refers listeners to the disclosures set forth under the caption Forward-Looking Statements in the earnings press release as well as the risk factors and other disclosures contained in the company's recent filings with the Securities and Exchange Commission.

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

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

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

Thank you, John, and thanks to everyone for joining our call today. Over the past quarter and throughout 2022, our advisors remained a source of support and guidance for their clients against a backdrop of increased market volatility. In doing so, they reinforced the value of their advice and the important role they play for their clients. We thank them for their continued commitment and dedication as we focus on our mission of taking care of our advisors, so they can take care of their clients.

With respect to our performance, our fourth quarter business results drove solid financial outcomes while at the same time, we continued to make progress on the execution of our strategic plan. I'll review both of these areas, starting with our fourth quarter business results.

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In the quarter, total assets increased to $1.1 trillion as continued solid organic growth was complemented by higher equity markets. With respect to organic growth, fourth quarter net new assets were $21 billion, representing 8% annualized growth. This contributed to net new assets for the year of $96 billion, also representing an 8% organic growth rate.

Recruited assets were $15 billion in Q4, bringing our total for the full year to $82 billion. These results were driven by the ongoing enhancements to our model and our expanded addressable markets.

Looking at same-store sales, our advisors remain focused on serving their clients and delivering a differentiated experience. As a result, our advisors are both winning new clients and expanding wallet share with existing clients, a combination which drove solid same store sales in the fourth quarter.

With respect to retention, we continue to enhance the advisor experience through the delivery of new capabilities and technology as well as the ongoing modernization of our service and operations functions. As a result, asset retention for the fourth quarter and full year was approximately 98%.

Our fourth quarter business results led to solid financial outcomes of $4.21 of EPS prior to intangibles and acquisition costs, which brought our full year total to $11.52, an increase of 64% from a year ago.

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

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

Now to execute on our strategy, we have organized our work into four strategic plays, which I'll review in turn. Our first strategic play involves meeting advisors and institutions where they are in the evolution of their businesses by winning in our traditional markets, while also leveraging new affiliation models, which expand our addressable markets.

In our traditional markets, ongoing enhancements to our platform and the efficacy of our business development team led to continued improvement to our win rates and an expansion of the depth and breadth of our pipeline, despite advisor movement in the industry remaining at lower levels. As a result, Q4 was our strongest quarter of recruiting in 2022 in our traditional markets with approximately $11 billion in assets. Looking ahead, we expect to carry this recruiting momentum into Q1.

With respect to our new affiliation models, Strategic Wealth, Employee and our enhanced RIA offering, we recruited over $1 billion in assets in Q4. In each of these models, we continue to see growing demand and expanding pipelines, which position them for increased contributions for our organic growth.

With respect to large enterprises, they remained a meaningful source of recruiting in 2022, including the additions of CUNA and People's United Bank. Looking ahead, we expect to onboard Commerce Bank around the middle of this year and continue to see our pipeline build as demand for our model grows. Now at the same time, we continued to have success recruiting in our traditional enterprise channel, including the addition of BancorpSouth in Q4.

Within this strategic play, we are also seeing positive early momentum with our most recent innovation, our Liquidity and Succession capability, where we are providing a differentiated offering to meet the succession needs of the advisors. Over the next decade, it is estimated that up to a third of advisors will be retiring, and will likely address the succession needs of their practices.

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To solve for this need, our first innovation was providing M&A support as a service to help facilitate the transition of practices from advisor to advisor. Our key learning from that experience, there are many instances due to factors like large practice size, or lack of an identified successor that would require a different solution.

Now it was out of this need, we created our differentiated Liquidity and Succession offering, in which LPL will step in to purchase an advisor's business and serve as a bridge to the next entrepreneurial successor, all while preserving the principles of independence.

The offering has been well received and we are encouraged by our early momentum, having already executed on a handful of transactions with advisors on our platform. This year, we will also plan to take the capability to the external marketplace and look forward to sharing our progress.

Our second strategic play is to provide capabilities that help our advisors differentiate the marketplace and drive efficiency in their practices. In 2023, we will focus our development of new capabilities and solutions within this play across four key areas. First, we will continue to enhance our wealth management platforms to help advisors provide their clients with differentiated advice, products and pricing.

Second, we will continue to advance ClientWorks, our core operating platform, with additional digitized workflows to help advisors operate more efficiently and increase their scalability to serve more clients. Third, we will expand our banking and lending services to help advisors address a broader spectrum of the clients' financial needs and thus deepen their role as an essential partner. And the final area is to enrich the end-client experience with additional digital solutions that increase personalization and self-service and enable advisors to create customized experiences for their businesses. We believe these evolving capabilities will help drive increased advisor growth, productivity and retention.

Now let's move to our third strategic play, which is focused on creating an industry-leading service experience that delights advisors and their clients and, in turn, helps drive advisor recruiting and retention. As a reminder, over the past couple of years, we've been on a journey to transform our service model into an omni-channel client care model, including voice, chat, and digital support. Now, as part of this journey, we have evolved the technology and instrumentation of our traditional voice channel while also made meaningful enhancements to our always-on, digital support capabilities. As a result, approximately 75% of engagements with our digital channel fully resolve their service request and don't necessitate a phone call to complete the task. As we continue to expand and refine our digital support channel, we believe that an increasing share of advisors will leverage digital-first support for a more flexible and efficient service experience.

Now as we continue to evolve our service interface, we are also transforming the operational processing that takes place behind that interface. For example, last year, we began automating much of the processing for our core clearing functions, including money movement, account opening and account transfers, which collectively drive the majority of our operational processing. And with these learnings from our transformation in service and operations, we are reengineering other areas of the business, including our compliance and risk management functions. To that end, we've applied robotics and AI capabilities through a number of our compliance review workflows, which has improved both the efficiency of the reviews as well as the efficacy of the overall risk management. Efforts on this front include automating the reviews of client communications, marketing materials and transactions. By automating more workflows, we continue to increase the scalability of our platform while also enhancing the client experience.

Our fourth strategic play is focused on developing a services portfolio that helps advisors and institutions run thriving businesses and deliver comprehensive advice to their clients. As we discussed last quarter, we are encouraged by the seasoning of this business and the evolving appeal of our value proposition. As a result of solid demand, in Q4, the number of advisors utilizing our Services Group continued to increase and we ended the year at over 3,000 active users, up more than 30% year-over-year and generating run rate revenue of $36 million.

Now when we started our Services Group, we focused on addressing some of the most complex challenges facing our advisors, which were often more acute for advisors with larger practices. With the insights and learnings from this initial client segment, we are now expanding our services portfolio to address the needs of our broader advisor base.

As we continue to evolve the offering in 2023, we are focused on several key opportunities for our Services Group. First, addressing additional channels, specifically building solutions that solve for needs of enterprise partners. Second, leveraging our structured approach to innovation in

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order to continue to develop new services and evolve our existing portfolio. Third, contributing to the growth of our new affiliation models, Strategic Wealth and Linsco, as well as expanding our ability to serve "high net worth oriented" advisors.

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

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

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

All right. Thank you, Dan, and I'm glad to speak with everyone on today's call.

Before I review our fourth quarter results, I'd like to highlight our progress during 2022. Against an evolving market backdrop, we maintained our focus on supporting our advisors and their clients while executing on our strategic priorities. We continued to grow assets organically in both our traditional and new markets, successfully onboarded new enterprise clients, developed and piloted our new Liquidity and Succession capability and announced two strategic acquisitions. We accomplished this all while continuing to invest in our industry-leading value proposition and delivering record earnings per share.

Now let's turn to our fourth quarter business results. Total advisory and brokerage assets were $1.1 trillion, up 7% from Q3 as continued organic growth was complimented by higher equity markets. Total net new assets were $21 billion or an 8% annualized growth rate. Our Q4 recruited assets were $15 billion. I would note, this included $11 billion from our traditional independent model, which was the highest quarter of the year.

Looking ahead to Q1, our overall pipelines continue to remain strong. In particular, I would highlight that within our traditional models, the momentum we saw in Q4 has continued into Q1, and we are on pace to deliver one of our strongest first quarters in what is typically our slowest quarter of the year.

As for our Q4 financial results, the combination of organic growth, rising interest rates and expense discipline led to EPS prior to intangibles and acquisition costs of $4.21, the highest in our history.

Looking at our top line growth, Gross Profit reached a new high of $972 million, up $135 million or 16% sequentially. As for the components, commission and advisory fees net of payout were $172 million, down $10 million from Q3, primarily driven by the seasonal increase in production bonus. In Q4, our payout rate was 88.4%, up about 50 basis points from Q3 due to the seasonal build in the production bonus. Looking ahead to Q1, we anticipate our payout rate will decline to approximately 87% as the production bonus resets at the beginning of each year.

With respect to client cash revenue, it was $439 million, up $136 million from Q3 as the impact of higher short-term interest rates more than offset a sequential decline in balances.

Looking at overall client cash balances, they ended the quarter at $64 billion, down $3 billion driven by record net buying of $25 billion. Within our ICA portfolio, we added $4 billion of new fixed rate contracts, bringing our fixed rate balances to roughly 45% of the ICA portfolio, up from 25% a year ago.

Our ICA yield averaged 291 basis points in the quarter, up 79 basis points from Q3, primarily driven by the increase in short-term rates during the quarter.

As for Q1, we expect our ICA yield to increase to approximately 315 basis points, which includes yesterday's 25 basis point hike, at an assumed deposit beta of 25%.

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As for Service and Fee revenue, it was $120 million in Q4, down $2 million from Q3. This decline was primarily driven by lower conference revenue, following our largest advisor conference of the year in Q3. Looking ahead to Q1, we expect typical seasonal increases in IRA fees to be offset by lower conference revenue. So we anticipate Service and Fee revenue to be roughly flat to Q4.

Regarding Q4 transaction revenue, it was $47 million, up $4 million sequentially as trading volume increased. Based on what we have seen in Q1 to date, we would expect transaction revenue to be roughly flat with Q4.

Turning to expenses, our Core G&A was $327 million in Q4, bringing our full year Core G&A to $1.192 billion. This was in the middle of our outlook range and, for the full year, represents approximately 13% growth.

As for our outlook for 2023, our long-term cost strategy remains unchanged. We plan to continue to prioritize investments that drive organic growth and create incremental operating leverage in our core business. As we shared at our Investor and Analyst Day, the current environment is creating opportunities to accelerate our investment plans. As such, we expect to grow our investments at a similar pace this year. More specifically, we plan to grow our 2023 Core G&A in the range of 12% to 15%.

To share a little more color on where our investments are focused, this expense growth spans the following three broad categories, with each driving approximately 4% to 5% growth in Core G&A. First, to support our core business growth, including investments in technology and capabilities. Second, to support growth in our expanded addressable markets and to scale our new services. And third, to accelerate the timing of investments that advance our strategy.

To give you a sense of the near-term timing of this spend, as we look ahead to Q1, we would expect Core G&A to be in the range of $320 million to $325 million. As always, we will remain flexible and can adjust to shifts in the operating environment.

Turning to promotional expense. In Q4, it was $84 million, down $15 million sequentially, primarily driven by lower conference spend. In Q1, we expect promotional expense will increase by approximately $25 million as we have two of our largest conferences of the year during the quarter.

Looking at share-based compensation expense, it was $12 million in Q4, up $1 million from Q3. As we look ahead, we anticipate this expense will increase by approximately $5 million sequentially in Q1 as it tends to be our highest quarter of the year given the timing of our annual stock awards. As for interest expense, it was $37 million in Q4, up $4 million sequentially as higher LIBOR rates increased the cost of our floating rate debt.

Regarding capital management, our balance sheet remained strong in Q4 with corporate cash at $459 million, up $35 million from Q3. Our leverage ratio was 1.4x, down from 1.7x in Q3. This decline was driven by a combination of our continued growth and a higher interest rate environment, both of which have meaningfully improved our earnings power. As for capital deployment, our framework remains focused on allocating capital aligned with the returns we generate, investing in organic growth, first and foremost; pursuing M&A, where appropriate; and returning excess capital to shareholders.

As we look ahead to 2023, the strength of our balance sheet leaves us with ample capacity to allocate capital across our entire framework. Specific to organic growth, we see opportunities in recruiting and continued investment in our technology platform. On M&A, we see opportunities in the marketplace overall and within our Liquidity and Succession offering where we are emerging from the pilot phase and closed 4 deals in 2022 for around $50 million. With regards to capital return, we plan to increase our share repurchases to roughly $250 million in Q1. And lastly, we plan to increase our quarterly dividend by 20% beginning in Q1. To summarize, our balance sheet is strong, and we are well positioned to drive value through our capital allocation framework.

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

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

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Alexander Blostein from Goldman Sachs.

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

So Matt, maybe we can start with the question around just the cash dynamics. Obviously, it's an area that creates a lot of anxiety for investors still. Maybe talk a little bit about dynamics you saw in December that kind of let the balances being a little bit better than we saw with some of the peers, what you're seeing so far in January and then, importantly, the demand from the bank channel given that the fixed extensions you highlighted in the deck seemed pretty robust. So maybe kind of walk us through the current environment and cash.

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

Yes. Sure, Alex. So I think in December, we saw the typical seasonal build that you see from tax loss harvesting and rebalancing. And I think as you pull that forward into what we're seeing in January, that cash typically goes back into the marketplace. So that $1.6 billion or so that we saw a build in December in January naturally went back into the market. I'd also highlight, from a seasonality standpoint, advisory fees for the 3 months of the quarter, the first quarter of the month, as I think you know well, is typically the highest month for advisory fees, and those are about $1 billion in the month of January. So if you just look from a seasonal standpoint, you'd have a decline of around $2.5 billion, $2.6 billion in the month.

And then in addition to that and just commenting on the overall market activity, we have seen just broad advisor and investor reengagement in the marketplace. I think a good way to summarize that is our customer net buying metric. The highest month -- if you look at our monthly metrics, the highest month we've ever had was back in August of 2022 at $10 billion for the month. For January, what we're seeing is just north of $11 billion, so the strongest engagement that we've had. And that money is really going back into the equity markets and, as you may expect, longer-dated fixed income securities and things like that. So that's naturally going to drive down balances. When you pull those seasonal factors, and combined with the investment engagement, we expect January cash sweep to be around $60 billion, in the $60 billion zone.

I think specific to the -- I think the third question, the last part of your question, on the market for ICA contracts. The headline I'd give you is it continues to improve. It improved throughout 2022, continued to improve in Q4 and maybe break it up into 2 buckets. The market for the floating rate balances, the demand continues to be well in excess of the deposits that we have, and you're starting to see that lead to price improvement. So for the contracts that we're putting from a floating rate standpoint now, they're more fed funds plus 10 or 15 as opposed to last quarter, they were plus 5 to 10. And then back in the heart of the pandemic, if we could place them at all, it was fed funds flat to down. So the market there is quite good.

On the fixed rate side, we're able to add $4 billion in balances this quarter ranging from 2 to 6 years. And I think when you combine that with the progress in the past few quarters, we're now not at our high but starting to get close to the high that we've had from a percent of the portfolio at 45%. And when we look ahead to Q1, we've got $2 billion of maturities coming up. And I think we feel quite good about being able to place those into new fixed rate agreements and, even beyond that, starting to be able to continue to grow the portfolio overall, just seeing the overall demand. So headline, I'd say from my side, Alex, is pretty good.

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

Great. And maybe just a second question around the balance sheet. It's nice to see the leverage come down now below your guidance target, which I think you guys revisited recently to lower that. So as you think about priorities between building out the lending practice, perhaps inorganic opportunities and maybe accelerating some of the share repurchases, how would you think about that?

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

Yes. Well, I think, Alex, the key point on the lending side is it's not a big use of the balance sheet. So it's really more about connecting the capabilities so our clients can use that. I think on the buyback, I think just going back to our overall capital allocation framework, I think we're focused on investing in organic growth first, M&A second, and capital returns third. And I think from a pace of the buyback, it would just all depend upon the opportunities that we see. So if the opportunities to invest in organic growth weren't there or M&A wasn't as strong as we would expect, I think that's a scenario where we could accelerate buyback. And then the opposite is also true. We can slow it down if opportunities would lead there. So the key for us is really to be flexible. And maybe I'd just reiterate that our center of gravity is really that $250 million.

Operator

And our next question comes from the line of Steven Chubak from Wolfe Research.

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

So I really appreciated the additional granularity in terms of the expense guidance. Your prior expense guide was 15% growth in '23. This latest update appears better or at least a tighter range of 12% to 15%. Is that the right way to interpret the guidance, a bit better than what you offered up last time? And just looking beyond '23 and thinking about that longer-term expense growth algorithm, is there anything we can infer from those buckets that you offered as to what's a normal pace of expense growth, say, in a period where you're not accelerating your investment plans?

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

Yes, Steve. I think on our plans, I mean they really -- they didn't change at all from Investor Day. I think the key is we gave our preliminary thinking there and really went through our typical year-end process to finalize those plans. And I think that's where the 12% to 15% comes from. So I think the strategy that we have of using this environment really to advance our investments is just the same, and you're just seeing us now land the plane with a sharper pencil.

I think specific to the 3 categories, I think the answer to your question is, yes, it is informative. I think when you look at the investments to support our core business growth, right, assuming that growth is continuing, I think that level of 4% to 5% supports that growth. When you look at the second and third categories, by definition, that's where we have flexibility. And we can adjust those based on the market and whether there's opportunity to spend in those areas or not, especially that third category where it's all about advancing things that we may have otherwise done in '24 and beyond that we're now going to do in '23.

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

And just for my follow-up on organic growth, certainly encouraging to hear that the NNA momentum in 4Q has continued to start the year. I was hoping you could just speak to some of the factors that's driving that better NNA momentum. Just trying to gauge how much is environmental, so the strength in the markets, maybe increasing advisors in motion versus more idiosyncratic. And you were talking about the pipeline strength in institutional as well in your NNA remarks, how much of that strength is coming from larger institutions?

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

So let me take that one, Steven. There's a lot there. So if I missed something, you give me guidance after I finish. So look, I think if we start as a jumping-off point, last year, 8% organic growth rate, $96 billion in NNA, which is a pretty solid outcome against a challenging macro backdrop. And I think irrespective of that backdrop, I think making the progress or working through sort of that environment, both in terms of our teams and advisors, you just continue to evolve capabilities, skills and operating in any potential environment.

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So I think as we look forward and we think about going forward, we feel good that the sort of the acclimation to tougher macro, if it sustains itself, that we can execute in it better and ultimately contribute improved or better growth. So that's how I would sort of think about the environmentals. It may influence what I might call short-term progress around our growth efforts.

I think, probably more importantly, strategically, as we think about our opportunity, those drivers of that strategy, right, those significant three, structural, big, durable trends all remain in place. It's growing demand for advice. The appeal of receiving that advice through a financial professional, the attractiveness of the independent model versus other models all continue. And I think we sit at the intersection of all of those and believe we're uniquely positioned to capitalize on that opportunity. And whether that's through our market leadership, singular focus on what we do, robust platform of which to leverage and use as a differentiator or even the capacity and commitment to invest, but that was just speaking of to evolve that platform and continue to differentiate it.

So I think as we think about going forward, that concept of that 7% to 13% sort of growth rates that we talked about across different macro environments, I think, is still highly relevant, still how we think about it. And I think last year demonstrated the ability to persevere through a tougher macro and still reside within that range. So that's how we think about the shorter run and the longer run.

I think to your click down on the enterprises within that, look, it's a channel that we've talked about is a durable growth contributor. We've continued to evolve our capability set with more wins and with good success with those relationships, creates better advocacy from our clients and that IP and insight from being on the court -- for a couple of years working on those large enterprises is certainly IP that's hard to replicate without that experience itself. And so when we look at that going forward, it's a pretty appealing model that is finding a marketplace that is in need of that type of model, and we're pretty convicted around our solution. So we do believe that, again, within those bookends of 7% to 13%, we do get some contribution from large enterprises throughout the year. So I hope that gives you a little color.

Operator

And our next question comes from the line of Bill Katz from Credit Suisse.

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

Okay. Unfortunately, my connection cut out a little bit, Matt, while you're talking a little bit about the ICA dynamics. I guess my broader question is, as you think about what's been happening in the forward market and expectations softening up a little bit, how is that informing the opportunity here to potentially accelerate the ratio of fixing out relative to the float? And then you mentioned that demand is very healthy. How should we be thinking about reinvestment rate opportunity?

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

Yes. I think, Bill, our perspective on fixed rates really to get into that target range we have of 50% to 75%. And I think the -- if you cut out while I was commenting, I think the comment on the market is it continues to improve, right? It's not perfect, right? We can't move exactly where we want. But I think if you look at the trends throughout 2022 and as we look ahead into what we're seeing already in Q1, demand continues to improve. So I think we feel good about the maturities that we have coming in Q1, being able to place those into new fixed rate agreements. You can see what we did in Q4 that we're targeting to go out in the 5 and even, in some cases, a 6-year zone based on what the market will bear. And then when you look at the demand overall, in addition to those maturities, I think we feel like we've got the opportunity to grow it in some amount from there. So the headline is the marketplace is strong. And I think with where the curve is, we still think it makes sense to target getting into that range if the market will allow us to do so.

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

Terrific. And then just going back to expenses, again, I apologize my connection just cut out. Of the variability to this sort of more refined 12% to 15% and sort of bringing forward that growth, should we be interpreting that, as we look out into '24, all else being equal, that the absolute level of this growth rate would decelerate? Or might you be in the same kind of situation where you would have the opportunity here to sort of advance your organic growth? And is it really now a point of trade-off between organic growth and margin as you think about the business?

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

Yes. I mean I think when you get to our long-term cost strategy, Bill, where that fourth principle is really adjusting our cost to the market, right, so I think, as you may expect, we'll make judgments about 2024 as we get closer to that year. But I would emphasize from an optionality standpoint, when you look at that third category of 4% to 5%, that is opportunistic. The market, especially for 2023 with the interest rate benefits that we have, allow us to make those investments. And you can look at our op margins with the tailwind of interest rates our op margins continuing to be quite strong, we're in a good place to do that. If the market does not allow us to do that, we've got the ability to adjust. So I think I would definitely take away that we've got the flexibility. And when you start to look beyond 2023, we'll make those judgments as we get closer to that time period.

Operator

And our next question comes from the line of Devin Ryan from JMP Securities.

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

I guess first question, as we think about the opportunity to move upstream with larger advisors and higher net worth over time here, what are the capabilities that you need to add to be able to do that? Do you have everything you need and just kind of investing and improving? Or are there other types of capabilities that are maybe incorporated in some of that expense growth that are coming that could really help accelerate that push?

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

Yes. Devin, it's Dan. So look, as we think about the opportunity set in the high net worth space, and I speak now of the end client segment when I refer to high net worth, that's a function of our advisors' overall evolving practices. And as they have clients or more clients that they have an opportunity to serve inside that category, that's really driven the demand for services and capabilities that traditionally may not have sat inside our overall sweet spot. And so I think that's been the real catalyst for the driver of our contemplation of building out certain capabilities.

And so examples of that are us building out our own service around complex case design, right? And so that would be an investment that shows up in the core G&A reference that Matt was making, as an example, to your question. I think you also see that in extended financial planning support. It's not just the technology, but it's the Paraplanning Services that sit around it, as an example. So those are things that we're building ourselves or organic capabilities that we're building ourselves. So as we've gone on the journey, we have built and we'll continue to build certain things that are in-house.

There's also other things that we think are important to serve high net worth types of clients, maybe that's tailored insurance offerings that we traditionally haven't done inside our own insurance agency or services like helping to sell a small or midsized business. And that's where we are developing strategic partnerships of which to provide those integrated solutions and services inside our overall offering rather than building. And so that's how we're putting together what we think is a compelling set of solutions that position our advisors to serve and support their high net worth clients.

Now as we built out those capabilities or we're in the progress of, it also challenges us then to say, well, how do we better deploy those to the marketplace or leverage those, if you will. And I think that's where we realized with the capability set that we have today, could we utilize that to even target what I might call advisors who specifically operate with only high net worth clients. And I think that would be an example of how we

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better leverage these capabilities, and that's something we continue to explore in terms of how we go to market with this capability. But think about it that way, is we're building some of these capabilities. We've been on a journey, we're not completely there, but we've made some significant progress. And then we'll look to the outside market strategic partnerships. And I'm doing that, I think we can take the capital-light model to what is a compelling value proposition, use it to support our existing advisors and help us potentially attract new.

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

Okay. Great context. Just a quick follow-up here on kind of the M&A market and conditions. You sounded reasonably optimistic around what you're seeing now. There was a big wealth manager or deal in the wealth management space announced today. I guess just what are some of the themes that you're seeing in the market that is kind of the catalyst for activity? I'm not sure if it's the same across channels, but any context around maybe what's making you feel like it's a reasonable M&A market right now.

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

Yes. I think we'll continue to see that ongoing trend around consolidation. I think you're continuing to see innovation around capabilities as well, and so that leads to transactions around a certain type of IP or capability set that firms may want to deploy or utilize in a different way. And then we're seeing more robust activity around solving for succession planning at the individual advisor level and/or smaller practices level. And so I think you're seeing a healthy amount of activity across the ecosystem. We continue to stay active in exploring all of those possibilities, right? And you see us deploying capital, as an example, the closings we did yesterday with Boenning & Scattergood and FRGIS.

I would just remind you our framework for exploring those possibilities, and you know these, first, it's in sort of what I would call growth opportunities in traditional markets where we see opportunity for purposes of growth to potentially acquire a practice, and Boenning & Scattergood would be a great example of that, Waddell & Reed would be a great example of that. We also look in that second category where we can add capabilities faster through an acquisition than building them ourselves. We believe we've got to stay open and agile and nimble around that framework.

And then the final one, the third one, which is a little newer one and is aligned with this new capability of liquidity and succession, is putting capital work through acquiring these practices and being that bridge to that future successors. So I think that's where we're active, that's where we're exploring potential possibilities. And we see pretty good activity going on in the consumer market.

Operator

And our next question comes from the line of Michael Cho from JPMorgan.

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

I just wanted to touch on -- just to kind of zoom out a little bit and touch on the pricing trends you're seeing in your business. I guess just given the environment we're all operating in, I mean, are there some areas where you're looking to either take price or actually invest in price as you look ahead given all the different initiatives that you're laying out there with the business?

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

Yes, Michael, I'll take that one, and certainly, Matt, you can add anything you want at the end. Look, we look at pricing as a part of our overall offering. Think about such capability, services, technology. We look at pricing as part of our overall investment strategy, if you will. And I think as we shared in the past, we've created a reoccurring theme of investing back into the platform, specifically trying to use price to help our advisors differentiate and win in the marketplace. And so I think that places that we've been historically focused on for the past, call it, 4 to 5 years has been typically around the advisory platform, right? 70%, 75% of new assets -- sorry, yes, new cash is going to those types of solutions, and we want to make sure that we're enriching the appeal of them.

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And so as we look at 2023, you'll see us continue to lower pricing around our centrally managed platforms as a way to create more applications for advisors to leverage and utilize those, refined with the enriched capability set that we're adding to them, more and more using them versus Rep as PM type of approach. You're also seeing us look at transaction charges in certain areas where we're being very tactical around that. Although this holistic sort of lowering of transaction, we're trying to be very tactical about where we make those changes, such that we actually make the adjustments on where they make the most sense for our advisors that ultimately help them win.

And so I think those are a couple of examples that we'll continue to pursue this year. So whatever we can do that we think is optimal to help our advisors differentiate and win in the places that matters most of them is what we're trying to solve for our advisors. Those are a couple of things. I hope that helps.

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

Yes, it does. No, I appreciate the color. And then just one quick follow-up. Dan, I think you kind of referenced this just on the expenses. Just looking at the third bucket of expenses where we're talking about the accelerated portion. I guess, are there areas you'd call out that's going to receive those accelerated investments?

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

Yes, this is Matt. I'll take that one. I think there's -- when you think about that third bucket, it's more about the timing of the investments. So there's no specific category. I think if you go back to the investments that we're making in technology and capabilities that help improve our value proposition or help support and open up our expanded markets. And when you think about those plans, we've got multiyear plans on the things that we think are quite important. And that third bucket is really about, given the environment that we're in, accelerating some of those plans. So that's the headline there. I don't know, Dan, if there's anything you want to add.

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

I would just give you an additional way to frame that. If you remember back at the Investor and Analyst Day that we did, we shared the framework around vertical integration and a lot of those investments are showing up across that spectrum of opportunities that we have. So as we drive more and more solutions into sort of that lower in the ecosystem where it really helps the advisor operate at a local level, but you'll find it also coming all the way back to things that enhance our advisory platform. And so I think you're seeing an accelerated investment across that entire spectrum as opposed to any one specific play. So I hope that helps to keep your framework to think about how we think about the spectrum of investments and perhaps how that's being improved.

Operator

And our next question comes from the line of Kyle Voigt from KBW.

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

Maybe just another question on centrally managed platforms. You mentioned that, in a response on pricing, the organic net new asset growth there is still strong but it's been decelerating over the past couple of quarters. Just wondering if you could provide a little bit more color on the recent trends and then kind of where you see the opportunity to take that penetration rate to over time for the centrally managed business.

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

Yes. So obviously, with respect to our advisory platforms, that fits inside that overall spectrum of offering. And as we think about enriching that entire platform, one of the places we've been focused on is centrally managed solutions. And we continue to add more capabilities and more value there. We think about the investment content that's available, the ability for advisors to use that in different ways, really turning that into a UMA and expanding the SMAs that are available on it. There's really cool enhancements and functionality that is materially improving the appeal and how one would apply it in more scenarios and cases. So we're excited about the potential opportunity and for it to continue to sort of grow share, if you will, in that overall mix of business, both with respect to advisory but we even think about it across a full spectrum of brokerage, because the more appealing we make this even at smaller accounts, where it's appropriate, and people feel that the plan is better served from that movement of brokerage to advisory, a lot of that would tend to move over to centrally managed solution.

So that's one way to think about how we add capability to make it more appealing to drive utilization. And I think we believe that upside can be significant, certainly continuing to invest in the pricing helps also drive the appeal and demand for it. And think about -- as you think about last year and rightfully so, still good demand but the trend was down. Historically speaking, centrally managed usually reacts more or is more impacted, if you will, by a challenging macro environment. The more volatility, the more sort of a downward trend in equity markets, and in fact, we had the combination of tough fixed income markets last year, and that's where we'll many times see an advisor sort of more want to put their hands on the wheel and drive that. So you're seeing some of that sort of volatility in the marketplace, the macro marketplace noise occurring in that trend. I think structurally speaking, we continue to invest in the appeal of it. And the more appealing we make it, the more it should drive up utilization on a relative basis. I hope that helps.

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

Good. And then for a follow-up, maybe just a modeling question here for Matt. The DCA yield came in a bit above our expectation. I know that's formulaic really. But just wondering maybe you could provide an update on the number of accounts that flow into that program currently and how or if that number has grown recently.

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

Yes. I mean I don't have an update on the number of accounts. I would emphasize, though, I think the point you're making, it is a fee per account. So we quote it in basis points, but it's a little hard for it to be predictive, just given balances to move up and down. So the fee per account, I would emphasize, they haven't changed materially. But when you get a pop perhaps like you've seen in this quarter, that may not be something that you would expect to see going forward just because it's not really rate driven, it's fee per account driven.

Operator

And our next question comes from the line of Jeff Schmitt from William Blair.

Jeffrey Paul Schmitt - *William Blair & Company L.L.C., Research Division - Research Analyst*

On recruited assets, I'm just curious how the recruiting environment for advisors looks right now. I know you mentioned it is pretty strong for you. But are you seeing any competitors get more aggressive on pricing just with organic growth down for the industry, maybe they're trying to look for growth?

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

Yes. So look, I think the recruiting environment, I think it's well documented over the last 3 years, the churn in the industry has slowed, right, from 2022 to -- sorry, 2020 to 2022, primarily driven on the backs of the pandemic and then the macro volatility last year, which are pretty extreme

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impacts. And so certainly, with less sort of swings in the batter's box, I think you have competitors that will tend to respond to that in different ways and some have gotten more aggressive on the transition assistance. That's what we're talking about, about being more aggressive. And then certainly, when you add to that the rising interest rates that can be more robustly monetized, and thus so in underwriting around deals, you'll see transition assistance get more aggressive in those types of environments. And I think it -- logic would have it, that's what would occur, and that's what we've seen over the last 3 years.

I think, look, for us, we don't see any structural changes in the opportunity set. I think the -- as we think about it, the ongoing evolution of our capabilities, the expansion of our market opportunity set with our expanded affiliation models, introduction of our services group, advocacy of existing advisors from good experiences, are really the key drivers of that opportunity set and our ability to drive win rates regardless of what the churn or opportunity set is in the marketplace. We did see the -- sorry, the market stabilizing more in the third and fourth quarter and more advisors now getting past that volatility and reengaging and exploring their strategic options.

And I think to the extent that there's not some big shift in the macro, we continue to expect to see that trend occurring. And you'll continue to see folks explore that movement from an employee-based model to independent model. We continue to see with more and more capabilities, a focus in the independent model, looking for something that can serve and support them better and taking care of their clients. And finally, even with -- being able to help with their own succession planning creates another catalyst of opportunities. So I think we think those things are much more important and bigger drivers of the ultimate sort of size of the movement. But certainly in the short run, there's been some noise or intermediate term, pretty extreme scenarios, right, of the macro, given the pandemic and the worst equity markets last year since 2008. I hope that helps give you some color on at least what we're seeing over the recruiting landscape.

Jeffrey Paul Schmitt - *William Blair & Company L.L.C., Research Division - Research Analyst*

Yes, absolutely. And then a question on the brokerage assets organic growth rate up 7% in the quarter. How much of that was driven by bank outsourcing? And I guess, like what deals specifically? Any breakdown of that would be helpful.

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

Yes. So the large financial institutions, that's what you're asking about on the brokerage assets?

Jeffrey Paul Schmitt - *William Blair & Company L.L.C., Research Division - Research Analyst*

Yes, right.

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

Yes, it's relatively minor. I mean the growth rate was 7% for the quarter. Prior to that, it'd be 6.5%. So a relatively minor part of it in the quarter.

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

Maybe to add to that, if you're curious around why the trend or better growth in brokerage over the past 3 to 4 quarters, I think that's the evolving interest rate environment and advisors using solutions that may be more brokerage-oriented solutions, whether that be fixed income or whether that be annuities of which to help clients seeking higher yield or higher rates. And so that's where you're seeing some of that growth come from that wasn't necessarily the trend prior to last year.

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Operator

And our next question comes from the line of Gerry O'Hara from Jefferies.

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

Maybe one for Matt. The leverage ratio of 1.4 coming down from 1.7, I think you said it kind of continue to grow in a higher interest rate environment. What do you feel is maybe sort of an optimal sort of long-term leverage ratio? I think some peers, both public and private, tend to run at a bit of a higher number. And just sort of want to get a little bit more color as to how you think this might be best set up to optimize the business, I think, kind of in a long-term environment.

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

Yes. I think the 1.5x to 2.5x, I think, is really the leverage ratio that we think makes sense in a range of different economic environments. And I think the ability to maintain a strong balance sheet and have the capacity to invest for growth in a range of different environments, I think, is a key part of our value proposition. I think it's a key part for our advisors and clients knowing that if the macro moves against us, and we're not at a leverage ratio, we're going to have to immediately pull back on investments or immediately pull back on being able to serve and support them and the host of capabilities that we have, Liquidity and Succession being an example. So I think the 1.5 to 2.5x, we landed on that with a view that that's the right leverage ratio in a range of environments. And I think it's certainly a key part of the value prop that differentiates from some of the firms that you mentioned.

And I think where we are today, being at the low end or just below the low end of that, with a fair bit of capital deployment coming our way in Q1, including the acquisitions that we closed as well as being positioned at that point in a macro that's, I think, anything but certain at this point, I think we like where we're sitting.

Operator

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

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

Thanks much, John, and I just want to thank everyone for taking their valuable time out to join us this afternoon, and we look forward to speaking with you again next quarter.

Operator

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

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